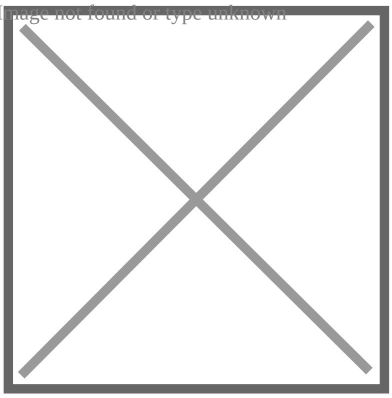

TFSA Income Investors: A Top Canadian Dividend Stock Yielding 7.4%

Description

The 2020 market crash is driving down the shares prices of some of Canada's top dividend stocks.

This situation is scary for shareholders, but it also provides TFSA income investors with an opportunity to buy top stocks offering tantalizing yields.

High-yield stocks

In normal market conditions, stock yields above 7% signal an expectation that the company might not be able to maintain the payout.

Investors should be careful chasing yields in some segments. Oil and gas producers, for example, are carrying heavy debt loads in many cases and face the prospect of prolonged low prices.

No stock is bullet-proof, but some high-yield dividend opportunities should be reasonably safe picks right now.

Let's take a look at one company that appears oversold today and might be an interesting choice for an income-focused TFSA portfolio.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) currently trades near $79 per share and offers a yield of 7.4%. At just 7.1 times trailing 12-month earnings the stock is the cheapest pick among the five largest Canadian banks.

Risk?

CIBC is cheap for a reason.

The market is concerned Canadian homeowners won't be able to make their payments. The Canadian banks already processed mortgage deferrals for more than 10% of the housing loans on their books. This buys homeowners time, but the economy has to rebound fast enough for people to get back to work before they have to start paying again. In addition, a deferral isn't a waiver. The unpaid amounts simply get added onto the back end, and more interest is often payable as a result.

Claims for the government's $2,000 per month emergency aid program and unemployment insurance topped five million in the first few weeks of the crisis, and nearly six million people have applied, so it is understandable that investors are cautious about bank stocks.

In addition, lockdowns are hitting businesses of all sizes across the country. Without revenue, they can't pay commercial loans.

Upside

The scale of the impact on CIBC and its peers won't be known for months. However, the sell-off in the stocks likely takes most of that into account at this point. CIBC entered the crisis with a strong capital position. The government's plan to buy $150 billion in mortgages from the Canadian banks will provide additional liquidity.

CIBC's CEO recently said the bank isn't considering a dividend cut. The bank maintained the payout during the Great Recession and CIBC was arguably in worse shape in that crisis due to its exposure to sub-prime loans in the United States.

Ongoing volatility should be expected, but investors get paid well to wait for the pandemic to pass.

Should you buy CIBC now?

The IMF is forecasting a strong global economic recovery in 2021. The combination of record levels of government stimulus and support for businesses across the country should ensure Canada participates in the rebound.

It is possible the market could retest the March lows before a sustainable rally occurs, but CIBC already looks attractive for a buy-and-hold income portfolio.

The stock traded as high as $110 in February, so there is decent upside potential for patient investors. Additional weakness would be viewed as an opportunity to add to the position.

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Date
2025/08/27
Date Created
2020/04/16
Author
aswalker