Contrarian TFSA Investors: 2 Top Dividend Stocks Yielding 7-8% With Huge Upside Potential

Description

Contrarian Tax-Free Savings Account (TFSA) investors searching for high-yield stocks now have a great opportunity to boost returns and potentially score big capital gains.

Reliable yield

In normal economic times, a dividend yield above 7% often indicates issues with a company's cash flow. Investors sell the stock down amid concerns a dividend cut could be on the way.

Top-quality dividend stocks with strong track records of rising payouts tend to command premium multiples. Each time the board raises the payout, the stock drifts higher, assuming the overall business outlook is steady. The pandemic, however, is turning the economy on its head and the sell-off across the **TSX Index** has hit most sectors.

The five largest Canadian banks, for example, typically offer yields in the 4-5% range. The plunge in their shares prices now gives contrarian investors a chance to pick up dividend yields ranging from 5% to 7.5%.

The energy infrastructure sector, as well, is taking a hit. An oil rout caused by reduced demand and price wars recently sent the price of WTI oil to a closing low near US$11 per barrel, down from US$63 in January. Oil producers are in a tough position and the companies that transport their production have also seen their stock prices get hammered.

Dividends from the producers could certainly be at risk in the coming months. Distributions from the top energy-infrastructure players, however, should be safe.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see why they might be interesting picks right now.

CIBC

CIBC is Canada’s fifth-largest bank. The stock currently trades at the lowest price-to-earnings (PE) multiple among the top Canadian financial institutions. The market normally discounts CIBC due to its large exposure to the Canadian residential housing market. CIBC’s mortgage book at the end of fiscal Q1 2020 was the largest relative to its size.

Mortgage deferrals will reduce the rate of defaults over the next six months while the provinces slowly open up their economies. The federal government’s aid initiatives are now rolling out to people who lost their jobs and to businesses that have been forced to close.

As long as people can get back to work by the end of the year, the housing market shouldn’t see a major price crash due to a flood of listings. This is a key risk for CIBC and its peers.

CIBC entered the crisis with a strong capital position and investors should have good reason to believe the dividend is safe. The board maintained the payout during the Great Recession.

The stock trades at $78 per share and offers a 7.5% yield today. CIBC traded at $110 in February and as high as $124 in 2018, so the upside potential is significant.

Enbridge

Enbridge is a giant in the North American energy infrastructure industry. The company transports nearly 25% of all crude oil produced in the U.S> and Canada and moves roughly 20% of the natural gas consumed in the United States. It also has natural gas distribution utility businesses and a portfolio of assets in the renewable energy power sector.

Enbridge cleaned up its balance sheet and restructured the organization before the 2020 market crash. As a result, the balance sheet is in good shape and most of the remaining assets operate in regulated environments.

Enbridge is working on $11 billion in secured capital projects, which should support cash flow needed to maintain the dividend.

The stock now trades close to $40 per share compared to $57 in February. Investors who buy now can pick up a yield of 8% and patiently wait for the market to recover.

The bottom line

Ongoing volatility should be expected. In fact, it’s possible that CIBC and Enbridge could see additional downside.

However, contrarian investors with a buy-and-hold strategy might want to start nibbling at these levels. The dividends appear safe and the stocks pay you well until the economic rebound kicks into gear.

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