Should You Buy CIBC (TSX:CM) or Enbridge (TSX:ENB) Stock for the 7% Yield?

Description

Plunging stock prices in a market correction might be difficult to watch, but they also provide dividend investors with opportunities.

High-yield stocks

Investors need to be careful when dividend yields start to creep above 7%. The move often signals concern in the market that a company's cash flow situation is not up to the task of supporting the payout over the medium term. This is particularly the case when distributions are paid using debt or the issuance of new shares.

The market crash of 2020 hit stocks across multiple industries. Good companies, as well as challenged ones, saw their stock prices tumble to multi-year lows in the past two months. The rebound off the March 23rd bottom wiped out some of the best dividend deals, but many high-quality dividend payers still trade at cheap prices and provide above-average yields.

Ongoing economic uncertainty means investors should be cautious. The true impact of the lockdowns could be worse than anticipated and it will take time for government stimulus measures to turn the economy around. That said, a number of top TSX stocks appear attractive right now and offer rare yields in the 7-8% range.

Let's take a look at two companies that might be on your dividend radar today.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is Canada's number five bank by market capitalization. The bank trades at a discount to its larger peers due to concerns it might be more exposed to a downturn in the Canadian economy.

It is true that CIBC's Canadian residential mortgage portfolio is large on a relative basis. In the event the economic downturn lasts longer than expected, and unemployment remains high through 2021, CIBC would likely take a larger hit on potential mortgage defaults.

That said, the bank entered the current crisis with a strong capital position. In addition, government actions to support businesses and individuals should mitigate the damage. The CMHC'S plan to buy up to $150 billion in mortgages from the banks gives the Canadian financial institutions additional liquidity.

Assuming the economy recovers in 2021, CIBC's payout should be very safe. The stock currently trades near $81 per share. That provides a dividend yield of 7.2%.

Enbridge

Enbridge is a giant in the North American energy infrastructure sector. The mere mention of the word energy right now might cause investors to head for the hills. Oil producers are certainly enduring difficult times and the ones with shaky balance sheets might not survive.

Production is falling, as oil companies cut capital programs. This means less demand for space on oil pipelines. That said, most of Enbridge's agreements are long term in nature with take-or-pay terms or regulated cost-of-service provisions. Oil majors with high credit ratings make up the bulk of Enbridge's client list.

Enbridge also has renewable energy power generation assets and natural gas distribution utilities. Overall, revenue should be stable, and ongoing secured capital programs will help support cash flow growth growth.

The stock trades at close to $42 per share compared to $57 in February and now provided a yield of 7.6%.

Is one a better bet?

CIBC and Enbridge both appear oversold today, and investors get an opportunity to secure yields on these stocks that might not be available again for a long time, if ever.

Ongoing volatility is expected in the near term, but you get paid well to ride out the downturn and have a shot at some solid capital gains in the coming years.

If you only buy one, I would probably make Enbridge the first choice today.

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