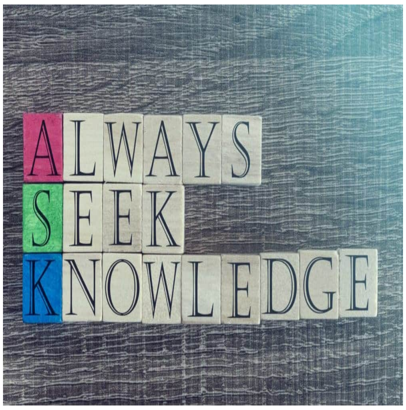

CIBC (TSX:CM) Stock: Is This 7% Dividend Yield the Deal of the Decade?

Description

The 2020 market meltdown is providing dividend investors with the best opportunity since the Great Recession to get high yields from top Canadian stocks.

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Are high yields safe?

Yields above 7% typically signal a dividend cut could be on the way, and this continues to be the case for many stocks. Major oil producers that managed to maintain distributions in recent years are now trimming their payouts. The uncertainty surrounding low commodity prices puts these companies at the mercy of the global market, despite being quality firms.

There are other businesses, however, that offer high-yield dividends that should be safe. Let's take a look at one Canadian bank stock that might be an interesting contrarian pick right now for an income portfolio.

CIBC

CIBC (TSX:CM)(NYSE:CM) is Canada's fifth-largest bank. At the current stock price of $82, the market capitalization is about $36.5 billion.

The stock normally trades at a discount to its Big Five peers. This is primarily due to the relatively large exposure to the Canadian residential housing market. CIBC finished fiscal Q1 2020 with total mortgages and home equity lines of credit of about $220 billion. **Royal Bank**, for example, had just over $300 billion in home loans, but its market capitalization is $122 billion.

If you are of the opinion the Canadian housing market is going to crash in the the next 12 months, it would be best to avoid CIBC. A drop in home prices of 25-35% would be bad news for the stock. In fact, that situation would be ugly for most of the **TSX Index**.

Fortunately, this is not the likely outcome. A dip in home prices is expected, but not a total meltdown.

Why?

The Canadian government knows the housing market is essentially too big to fail. CMHC is buying up to $150 billion in mortgages to ensure the banks have the liquidity they need to keep lending. About 10% of Canadian mortgage holders have received deferrals on their payments. This buys time for the next few months, as the economy begins to open up.

Additional measures to keep people in their houses will likely emerge. Amortization terms, for example, might get extended to help reduce monthly payments.

One valid concern is that the payment holidays could simply push the default can down the road if unemployment levels don't fall as expected. People need income to cover mortgage payments. If a wave of listings hits the market, there could be trouble. Potential buyers will wait for prices to fall, and more sellers could rush to list properties, hoping to get out before they are under water.

Is CIBC a buy?

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The stock appears reasonably priced right now given the uncertain outlook. If the IMF is correct in its prediction of a strong global recovery in 2021, CIBC is probably a great deal today. The shares traded at $109 in February, so there is decent upside potential.

CIBC's capital position remains strong and the bank has diversified its revenue stream in recent years through U.S. acquisitions. CIBC held the payout steady during the 2008-2009 crash when the bank was arguably in worse shape. The CEO recently said CIBC isn't considering a dividend cut.

I wouldn't back up the truck, but if you are searching for a high-yield income pick right now, adding a bit of CIBC to the portfolio might be worth the risk at this level.

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