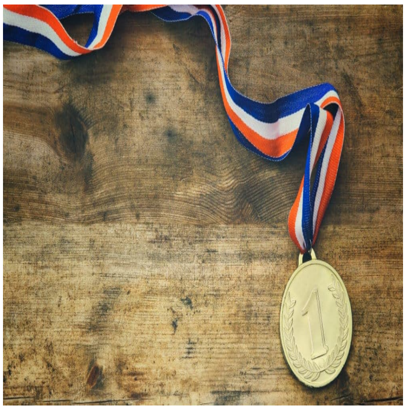

A Top TFSA Stock to Buy With a Dividend Yield of 6%

Description

If you're using your Tax-Free Savings Account (TFSA) to build a reliable income stream, you don't have many top-quality stocks available these days.

After the COVID-19-triggered recession, many companies have cut their dividends to preserve cash. There is also considerable uncertainty regarding the pandemic's future course. It's still raging in the U.S. and globally, making the economic recovery much difficult.

In this uncertain economic environment, it makes sense for TFSA investors to only buy solid, top-quality stocks that have the power to weather this economic downturn. Today, I'll analyze one such stock from Canada for your long-term investment.

Why top banking stocks?

In Canada, the nation's top bank stocks should be on the top of your TFSA buying list. After the recent sell-off, their dividend yields have become attractive. But buying a stock with a high dividend yield often comes with a greater degree of risks.

The stocks that pay higher returns might be facing intense competition, and their balance sheets could be loaded with debt. However, you can't beat the market without taking some extra risks and buying stocks whose values are depressed due to some short-term issues.

Canadian banking stocks have offered some of the best returns to long-term investors due to the strength of their businesses. In general, these stocks return between 40% and 50% of their income in dividends. If you're interested in top banking stocks for your TFSA, the next step is to find the best opportunity available to you after this market crash.

Why CIBC?

In this market, I particularly like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), the nation's fourth-largest lender. Its stock is down about 13% this year and 9% in the past 12 months.

CIBC stock is now trading around $93.54 at writing, offering an annual yield of 6.23%. That yield is much higher if you compare it with what you can earn on a savings account or GICs. But there are reasons for this underperformance.

The lender's weakening earnings and its exposure to the nation's mortgage market are some of the major factors that could keep its price depressed in the short run.

But I believe the period of this sluggish growth will be temporary. The monetary and fiscal support is reviving the Canadian economy quickly, and the pandemic is coming under control.

The bank's provision for bad loans surged more than five-fold in the last earnings report as the lender's profit declined. But CIBC said it was maintaining its quarterly dividend at $1.46 per share.

"Our capital position remains strong, giving us flexibility and resilience as we navigate the current environment and continue to advance our long-term client-focused strategy," said CEO Victor Dodig in the eearnings release.

Short-sellers have also targeted CIBC in the past due to its vast exposure to the Canadian mortgage market, betting that a possible collapse in the housing market will sink the lender as well. That devastating scenario hasn't played out, however, and is losing its appeal.

Bottom line

With an annual dividend yield of over 6% at the time of writing, CIBC stock has a compelling appeal for TFSA investors. Its current dividend yield is one of the best among the major banks with little risk of that being slashed.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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