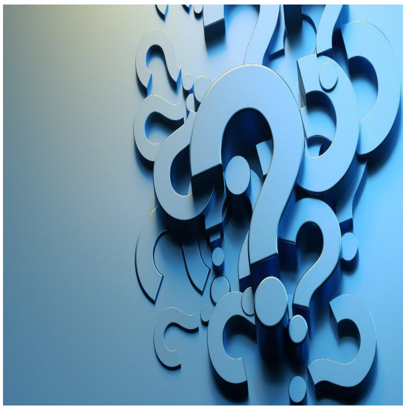

Should You Buy CIBC (TSX:CM) or Manulife (TSX:MFC) Stock for the 6% Yield?

Description

Canadian dividend investors are searching for top stocks to add to their Tax-Free Savings Account (TFSA) and RRSP portfolios.

Financial institutions often serve as anchor positions in a dividend-focused fund. Right now, many of the Canadian banks and insurance companies trade at attractive prices and offer above-average yield.

Let's take a look at **CIBC** (TSX:CM)(NYSE:CM) and **Manulife** (TSX:MFC)(NYSE:MFC) to see if one might be an interesting dividend pick today.

CIBC

CIBC booked $1.4 billion in provisions for credit losses (PCL) when it reported fiscal Q2 earnings. All of the banks set aside large sums in the quarter to cover potential loan defaults due to the pandemic lockdowns.

CIBC's exposure to the Canadian residential housing market is quite large on a relative basis. This puts CIBC at a higher risk if unemployment remains elevated through next year and people start defaulting on their mortgage payments.

CIBC and its peers provided deferrals for up to six months beginning in March to help homeowners and other borrowers get through the pandemic lockdowns. Once the deferrals expire, the banks could start to see clients getting into trouble.

Despite the near-term challenges, CIBC is well positioned to ride out the storm. The company has adequate capital and is still generating decent profits. The fiscal Q3 results might even see better than expected results.

The stock trades near $92 compared to $110 earlier in the year. It dipped below $70 during the worst of the crash in March. At the current price investors can pick up a 6.3% yield.

The dividend should be safe and investors get paid well to wait for the economy to recover.

Manulife

Manulife is a global insurance and wealth management company with operations primarily located in Canada, the United States, and Asia. The company serves individuals, groups, and institutions.

The U.S. division operates under the John Hancock brand. A few years ago rumours swirled around the possibility that Manulife might sell the American business to raise cash for expansion in Asia.

For the moment, John Hancock remains part of the portfolio, although low interest rates make it tough for life insurance companies to generate returns on cash held for potential payouts. Manulife bought John Hancock in 2004 for US$12 billion. At the time the deal doubled the size of Manulife.

The current CEO used to be the head of the Asian operations. As such, the focus on growth is expected to accelerate in that region. The potential in Asia amid rising middle-class wealth is arguably much better than in North America.

The meltdown in the stock market in March drove investors out of Manulife’s shares. The crash threatened to hammer results. Manulife’s stock dropped from $26 in February to a March low around $13, as a result. The stock has recovered some of the losses, but still trades at just $18.50 per share at writing.

Investors who buy Manulife at this price can pick up a 6% yield.

Is one more attractive?

A slow economic recovery would be negative for both stocks and investors should anticipate ongoing volatility. That said, buy-and hold investors might want to start nibbling on both Manulife and CIBC at these levels. Five years from now the stocks should be meaningfully higher.

If you only choose one, I would probably make Manulife the first choice today. You get good exposure to Asia and avoid some of the housing risks connected to CIBC.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/08/28
Date Created
2020/07/29
Author
aswalker