Better Buy: CIBC Stock vs BCE Stock

Description

CIBC (TSX:CM) and **BCE** (TSX:BCE) saw their share prices take a hit during the 2022 market correction. Contrarian investors with an eye on high yields and reliable dividends are wondering which top TSX dividend stock might be good to buy right now for a portfolio focused on passive income and total returns.

CIBC

CIBC is Canada's fifth-largest bank with a current market capitalization of close to $53 billion. The stock trades near $59 at the time of writing. That's up from $54 in late December but still down 28% over the past year.

Investors are concerned that CIBC's large Canadian residential mortgage portfolio could put the bank at a higher risk of losses if the anticipated recession turns out to be deep and extended, rather than short and mild.

The reason lies in the aggressive interest rate hikes that have occurred in recent months, as the Bank of Canada tries to slow down an overheated economy and get inflation under control. The December inflation report came in at 6.3%. It was 8.1% in June. The Bank of Canada wants to get it back down to its target rate near 2%.

Unfortunately for households, the big jump in expenses for monthly essentials in now being joined by a surge in mortgage costs. People with variable-rate loans immediately feel the impact of higher interest rates. Those with fixed-rate mortgages will also get a shock when they have to renew the loan.

In the event the tight labour market reverses and unemployment surges, a wave of mortgage defaults could hit the banks. CIBC would likely take a larger relative hit than its peers.

That being said, CIBC stock now trades at just 8.8 times trailing 12-month earnings, which likelyreflects the worst-case scenario. The board raised the dividend twice in the past year, so managementcan't be too concerned about the revenue and profits outlook.

Investors who buy the stock at the current level can get a 5.8% dividend yield.

BCE

BCE is Canada's largest communications company with a market capitalization of $57 billion. The business includes wireless and wireline network infrastructure that delivers mobile, internet, TV, and security services to millions of homes and businesses across the country. BCE also owns a media group with assets that include a television network, specialty channels, radio stations, and digital properties, as well as interests in pro sports franchises. Retail outlets round out the portfolio.

BCE invests heavily to protect its competitive position and drive revenue growth. The company ran fibre optic lines directly to the premises of another 900,000 customers in 2022 and continued the expansion of its 5G mobile network.

Media revenue could slip in the coming year if businesses reduce ad spending to protect cash flow. The wireless and wireline services, however, are essential for most households and companies, so this revenue stream should hold up well during an economic downturn.

BCE stock trades near $63 compared to the 2022 high around $74 per share. Investors can now get a 5.8% dividend yield.

Is one a better bet today?

CIBC and BCE both pay attractive dividends that should be safe and even continue to grow in the next couple of years. At their current prices, the stocks appear cheap and should be solid buy-and-hold picks.

If you only buy one, BCE is probably the safer choice until the market has a better understanding of the severity of the expected economic downturn.

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Date
2025/06/28
Date Created
2023/01/19
Author
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