Retirement Income: Which Canadian Bank Stock Offers Better Value?

Description

To generate steady retirement income, Canadian banking stocks offer a great avenue. These financial services companies have solid balance sheets and hefty cash flows to provide stability and growth to your income portfolios.

Canadian banks, on average, distribute between 40% and 50% of their net income in dividends and grow them regularly. After the recent market sell-off, some top banking names have become more attractive than others. Let's have a look which lender offers a better value to retirees who want to buy and hold these names in their portfolios.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has been hit the hardest in this indiscriminate sell-off of equities. After falling ~6% at the time of writing, its annual dividend yield has swelled to more than 4%, offering the best return among the top five Canadian lenders.

Despite this short-term setback, I don't see this weakness persisting longer because there is nothing wrong with Canadian banks. In an environment when interest rates are rising, and the Canadian economy is going strong, banks are likely to perform much better than other companies.

In the fourth-quarter earning report, CIBC reported a very strong profit, which jumped 25%, helped by better-than-expected performance in its U.S. operations.

CIBC reported net income of $1.16 billion for the three-month period ended October 31, up from $931 million during the same time a year ago. On an adjusted basis, CIBC's profit rose to $2.81 a share, up 8% from $2.60 per share a year ago, beating the $2.59 forecast by analysts surveyed by **Thomson Reuters**.

One thing that keeps CIBC stock under pressure in any market downturn is its overexposure to the nation's frothy housing market. Short sellers love CIBC stock due to the size of its mortgage lending, which is the largest among the top Canadian lenders. It has more uninsured mortgages in Toronto and Vancouver — Canada's two hottest real estate markets — than any other bank.

But this threat is over exaggerated. Canadian banks, including CIBC, aren't facing widespread delinquencies on their mortgage portfolios, despite a slowdown in the housing market.

Is CIBC stock a buy?

I think this 8% dip in the CIBC stock from the 52-week high offers a good entry point to long-term investors, especially when its dividend yield, at 4.4%, has gotten higher than its five-year average, and its forward P/E multiple is touching the single digits.

With a strong earning momentum, and its stock in the oversold territory, CIBC offers the best value among the top five lenders. If you have some idle cash on the sidelines, adding this stock to your retirement portfolio may not be a bad idea.

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