



Dividend Investors: A Top Reason to Buy Canadian Bank Stocks Now

Description

It seems there's little to worry about with Canadian banking stocks this year. Their stocks should be in demand at a time when the North American economy is going strong and interest rates are rising.

But the price action so far this year suggests that investors aren't very excited about Canadian financial stocks. Canada's top five banking stocks haven't done much for their investors. In fact, [Canadian Imperial Bank of Commerce \(TSX:CM\)\(NYSE:CM\)](#) and [Bank of Nova Scotia \(TSX:BNS\)\(NYSE:BNS\)](#) are down between 4% and 5% in the past one month. The losses are much steeper if you compare current prices with their 52-week highs.

The increasing volatility in markets has a role to play in this bearish spell, as investors re-price the risk and move their funds to safe-haven assets, such as government bonds.

But I don't have any doubts that it'll be Canadian banks that will lead the market recovery when investors are ready to put their money back to work. The latest sign of this upbeat outlook came from CIBC's first-quarter earnings, which beat analysts' expectations.

CIBC reported \$1.43 billion, or \$3.18 a share, profit for the quarter, excluding certain items. Analysts polled by *Bloomberg* were expecting a profit of \$2.83 per share. Its expansion in the U.S. and rising interest rates were the two key factors that boosted earnings, helping the bank to hike its quarterly dividends by \$0.03 to \$1.33 per share.

"In the quarter, CIBC delivered strong results across all four strategic business units," said Victor Dodig, the bank's chief executive officer, in a statement.

The better-than-expected earnings should allay fears of some investors who think that CIBC is the most exposed bank to the nation's slowing housing market; its portfolio of uninsured mortgages is the largest among Canadian lenders.

But the first-quarter data show that CIBC's credit losses are well under control, and there is no risk on the horizon. The lender said it set aside less money to cover soured loans, with provisions for credit losses falling 28% to \$153 million compared with a year ago. The bank credited the improvement to

better economic conditions and lower bankruptcies in its credit card and personal lending portfolios.

Why should investors buy banks?

Investors who are looking to generate steady dividend income should consider Canadian banking stocks to take advantage of the temporary weakness.

These financial services companies have solid balance sheets and hefty cash flows to provide stability and growth to income portfolios. Canadian banks, on average, distribute between 40% and 50% of their net income in dividends and grow them regularly.

At the time of writing, CIBC and [Bank of Nova Scotia](#), with their annual dividend yields above 4%, offer the best returns among the top five banks. History tells us that the laggards catch up quickly to the normal trend line, and any weakness in their stock prices is a buying opportunity.

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