A Top Canadian Dividend Stock That's Selling at a Bargain

Description

Canada's rising interest rates and its stabilizing housing markets are two developments that bode really well for the nation's top financial stocks.

Bank of Canada, on July 11, raised its overnight benchmark rate by a quarter point to 1.5% — the second hike this year and the fourth over the past 12 months. With bank officials reiterating that rates will need to rise further to keep inflation under control, it seems the Canadian economy will perform strongly in the remaining part of 2018. This is a very encouraging sign for investors in financial stocks, which make more money on personal loans, credit cards, and mortgage lending.

On the housing front, June data show that the market is stabilizing after the spring lull. Canada's once-hot housing market saw sales plunge this year in the wake of rule changes that tightened mortgage lending and four interest rate hikes by the Bank of Canada since July 2017.

Short sellers, who targeted Canadian banks last year due to their heavy exposure to the housing market, have failed to make any meaningful returns, as consumers absorbed these rate hikes with no major distress calls.

A top banking stock

Is this a good time to buy Canadian banking stocks? I certainly see good value in **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock, which I believe is ripe for a nice comeback after its underperformance this year.

CIBC is the smallest of the "Big Five" lenders in Canada. The bank has often been the target of speculators, who blame the bank for its aggressive mortgage lending in a market where home prices have seen massive gains after a decade-long boom.

These concerns, coupled with its late entry to the U.S. market, have kept its shares depressed. This year, its stock has fallen 5% when other top lenders fared much better. But these factors are unlikely to influence CIBC stock going forward, as rate hikes and stabilizing housing market allay investors' concerns.

The lender's second-quarter earnings report also reinforced this argument. Its profit for the quarter, which ended on April 30, rose sharply due to better results from the bank's other units and more than offset a slowing demand for its mortgage products.

Profit rose 26% to $1.3 billion compared with the same quarter last year, boosted in part by CIBC's acquisition of Chicago-based PrivateBancorp Inc. last summer. The banks benefited from higher fees and wider spreads, helped by rising interest rates.

The bottom line

Trading at $116 a share and with an annual dividend yield of 4.62% at the time of writing, CIBC stock is all set to rebound. If you're looking to add a solid dividend stock that has a long history of rewarding investors by paying growing payouts, then CIBC stock fits the bill.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/12
Date Created
2018/07/12
Author
hanwar