2 Bank Stocks That Still Look Good in the Face of a Cool Housing Market

Description

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Provincial governments have managed to succeed in temporarily cooling housing markets over the past several years. Housing sales have dropped steeply year-over-year in major metropolitan areas in both British Columbia and Ontario after a foreign buyer tax was instituted by their respective governments.

However, housing prices have continued to move up year-over-year, albeit at a much slower pace.

Unfortunately for home owners and investors at large, the Canadian housing market is still considered at risk. A new study from Oxford Economics listed Canada as the third-riskiest housing market in the world, behind only Australia and Sweden.

Of the three, Canada had the highest five-year price increase and overvaluation, according to the study. Its housing credit to GDP came in well behind Australia at 71%.

The Bank of Canada has cited housing in several of its rate decisions as a reason for caution going forward. Canadian banks also informed investors in the second quarter that the cooled market would lead to slower mortgage growth in the third and fourth quarter of 2018.

Investors got their first glimpse at this trend during the most recent earnings season. Let's look at two Canadian banks that boast some of the largest mortgage books in the country.

Royal Bank (TSX:RY)(NYSE:RY)

Royal Bank stock is up 3.2% over the past three months as of early afternoon trading on September 18. The stock is up just under 1% in 2018 so far. Royal Bank released its third-quarter results on August 22.

The bank's Personal and Commercial Banking segment reported net income of $1.51 billion, which was up 8% from the prior year. Earnings were boosted by improved margins, but Royal Bank also posted strong growth in residential mortgages and commercial lending products.

The renewal rate for existing mortgages rose to 92% as the bank introduced an online tool that cuts back on paperwork. The new stress test on uninsured buyers was also projected by other lenders to improve retention rates. This appears to be an accurate forecast so far.

Royal Bank also increased its quarterly dividend to $0.98 per share representing a 3.8% yield.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC stock has climbed 6.6% over the same three-month span, and shares are up marginally in 2018 so far. The bank released its third-quarter results on August 23.

The bank’s own prediction about a slowdown in the second half came true in the third quarter. Mortgage balances increased 2.5% year-over-year to $208.5 billion, which represented the slowest growth in over four years. This ended CIBC’s streak of outpacing its rivals in mortgage balances. It was soundly beaten by Royal Bank’s 5.9% year-over-year growth posted in the third quarter.

Overall, CIBC’s results were still positive as adjusted net income surged 20% year-over-year to $1.39 billion. The bank also offers an attractive quarterly dividend of $1.36 per share, representing a 4.2% dividend yield.

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