Which Canadian Banking Stock Offers the Best Opportunity to Buy?

Description

It's probably not the best time to buy Canadian banking stocks. The outlook for their earnings is becoming uncertain since the Bank of Canada raised some red flags about the economic growth and moved to the sidelines when it comes to raising interest rates.

That scenario doesn't give investors the confidence to go long on the banking stocks whose fate is closely tied with the economy. But if your investing horizon is long term, then any period of weakness in the top banking stocks could open a window to buy them cheap.

I find that **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), the nation's fourth-largest lender, is offering that opportunity these days. Its shares have been stuck in the range trading this year. After falling more than 10% in the past one year, CIBC stock is now trading close to the 52-week low at $104.40, but that weakness means its dividend yield has become more attractive for long-term investors.

Negative catalysts

There could be many reasons not to like CIBC stock now. The lender's weakening earnings, its exposure to the nation's mortgage market, and the rising provisions for bad loans are some of the major negative catalysts that are hurting the stock.

Last month, CIBC reported that its profit for the period fell 2.4%, led by a slowdown in its flagship Canadian consumer-banking division. The bank also faced pressure on its domestic mortgages and on its net interest income at a time when provisions for loan losses were rising.

Investors got panicked to see CIBC's Canadian mortgage book shrink for two straight quarters amid concerns that the housing slowdown and the Bank of Canada's earlier rate increases have started to hit the lender's portfolio.

But, in my view, CIBC has the ability to recover from this short-term weakness quickly. In recent quarters, the lender has shown strong performance at its U.S. operations. After its acquisition of

Chicago-based PrivateBancorp in 2017, CIBC is on strong footing to diversify its earnings base and grow its bottom line.

Among the top Canadian lenders, CIBC is the smallest, but it has the largest exposure to Canada’s mortgage market. Due to this vulnerability, the lender has often been the target of speculators, keeping its share price depressed and at a considerable discount when compared to its peers.

But that fear is purely speculative. Canada’s housing market, after going through a correction, is stabilizing, and there is a no sign of a hard landing for the market, which has been growing for the past decade. Home sales in Toronto, the nation’s largest city, are rising again, according to the latest data.

Bottom line

Trading at $104 and with an annual dividend yield of 5.33% at the time of writing, CIBC stock has a compelling appeal for investors. Its current dividend yield is one of the highest among the major banks. The bank pays a $1.4-a-share quarterly dividend which has been growing consistently.

When compared to analysts’ consensus price target of $115.53 for the next 12 months, CIBC has the potential of 11% upside move. But history tells us that top banking stocks rebound quickly once they have taken a hit.

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