Canada’s Best Dividend Stocks Becoming Expensive: Time to Buy?

Description

A few months ago, locking in a 5% or a higher dividend yield wasn’t that tough. Canada’s some of the best dividend stocks usually fall in this range. But fear of recession drove investors toward safety who moved their cash to buy solid dividend stocks.

In this rush to safety, it’s getting difficult to get a dividend yield that’s more than 5%. Let’s have a look at the Canadian banking stocks. These are some of the best companies that pay regular dividends.

Among the top five lenders, only **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is yielding more than 5% these days.

A month ago, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), was also in this category, yielding more than 5%. But more than 12% rally in its stock during the past four weeks has pushed the yield to 4.78% now.

In this perpetually low interest rate environment, this kind of return is still good, in my opinion. Compare that with GICs or with the government bonds and you’ll realize that you’re compensated well for the risk you’re taking.

I don’t foresee that remaining the same in the next few months. If the risks to global growth fall and the U.S. and China were able to sign a trade deal, we could see some sell-off in the banking stocks.

Short-term weakness

If you’re still in the market to buy quality dividend stocks, I still favour BNS and CIBS stocks for long-term investors, irrespective of developments on the macro front.

The nation’s biggest lenders have been lagging compared with Canada’s main stock gauge this year, which has gained about 17%, including dividends. During the same period, BNS stock rose 12%, thanks to the rally of the past four weeks. CIBC, on the other hand, has gained just 7%.

I believe that underperformance is short term and these lenders will soon catch up with their larger peers. In the case of CIBC, for example, it was the concern about its exposure to the nation's mortgage market coupled with the rising provisions for bad loans that kept its stock under pressure.

However, I believe the period of sluggish growth is over and that CIBC is set to outperform other lenders in the coming months, mainly due to strength of its U.S. unit.

Canadian banking stocks have offered some of the best returns to long-term investors due to the strength of their businesses, their diversified operations, and the oligopolistic nature of the Canadian market.

Bottom line

For these reasons, Canadian banking stocks are well-suited for long-term investors who want to buy and hold these stocks. These lenders roughly distribute between 40-50% of their income in dividends that keep growing. Currently, both BNS and CIBC stocks are offering the best returns among the top five lenders.

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Date
2025/08/15
Date Created
2019/09/26
Author
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