Why Is This Bank Among the Best Dividend Stocks to Buy Now?

Description

Is this a good time to buy Canadian banking stocks? Probably not.

Prime Minister Justin Trudeau failed to win a majority in Monday's federal elections. That means the Liberals will have to rely on other parties to form a coalition. Some analysts believe that means a lot of give-and-take and larger fiscal deficits.

An environment like this isn't good for growth and stability. Banks, being one of the best barometers of the health of the economy, won't be able to make good profits if the economy slows down and investors look somewhere else to invest.

That being said, any weakness in banking stocks also offers a good opportunity for long-term investors to buy these names at a bargain. Over the long run, these dividend-paying companies have rarely disappointed investors.

One big reason for their strength is that there is no major systemic risk to their growth, despite a weaker federal government. Their balance sheets are strong, they operate under a strong regulator, in a kind of oligopoly where competition is limited.

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.

Attractive yield

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 range trading this year. After gaining about 9%, CIBC stock is now trading at $112 a share. With that little move this year, its dividend yield has become more attractive for long-term investors, offering more than 5%.

The lender's weakening earnings, its exposure to the nation's mortgage market, and rising provisions for bad loans are some of the major negative catalysts that are hurting the stock. But despite these headwinds, the lender's diversified operations are helping to keep cash flows strong.

In the most recent quarter, the company's commercial banking and wealth management division in the U.S., which includes the **PrivateBank** operations that CIBC acquired two years ago, helped counter the weakness from the Canadian personal and small business banking.

Profit rose to $1.4 billion for the period ended July 31, with adjusted earnings of $3.10 a share, beating analysts' estimates by four cents. CIBC raised its quarterly dividend 2.9% to $1.44 a share.

Exposure to Canada's housing market has been another negative factor which kept CIBC shares under pressure over the past year. But there are quite clear signs of the nation's housing market coming back strongly after a couple of slow years. If that trend continues, it will help CIBC to expand its mortgage business which has been one of its main growth drivers.

CIBC, in my view, has the ability to recover from this short-term weakness quickly, especially after the PrivateBank addition to its portfolio.

Bottom line

With an annual dividend yield of 5% 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 $1.44-a-share quarterly dividend which has been growing consistently.

If you see further weakness in this name after the results of the federal election, it will offer an ideal window to buy this dividend stock and earn a higher yield.

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3. Investing

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