Which Canadian Banks Will Hike Their Dividends Next Week?

Description

Canada's big banks are scheduled to report their first quarter results next week. And like spoiled children meeting their grandparents the only thing on shareholders' minds is, 'What did you get me! What did you get me! What did you get me!'

Fortunately the nation's bankers are unlikely to disappoint. The average payout ratio for the Canadian financial sector currently falls between 38% and 48%, right around the mid-range of its historical payout band. And the industry players reported record earnings in 2013. Given all of these factors, we can reasonably expect another round of dividend hikes in next week.

Company	Earnings Date	Payout Rat
Bank of Montreal	Feb 25, 2014	45.7%
Canadian Imperial Bank of Commerce	Feb 27, 2014	42.2%
Bank of Nova Scotia	Mar 4, 2014	47.7%
Toronto Dominion Bank	Feb 27, 2014	44.7%
Royal Bank of Canada	Feb 26, 2014	46.0%

Source: Yahoo! Finance, company financials

Canadian Imperial Bank of Commerce (TSX:CM, NYSE:CM) is the most likely of the Big 6 to raise its payout. The company hasn't increased its dividend in three consecutive quarters. In addition the firm's pro forma payout ratio hangs at 43.2%, near the lower end of management's desired range.

Financial behemoth **Royal Bank of Canada** (TSX:RY, NYSE:RY) is also expected to hike its distribution next week. The company has plenty of room to hike its dividend given that its payout ratio is sitting at 46%, near the middle of management's desired range. And in December Royal reported a record $2.12 billion quarterly profit, so it's time for shareholders to share of the company's success.

Finally, it wouldn't be shocking to see a rate hike from **Bank of Nova Scotia** (TSX:BNS, NYSE:BNS) and **The Toronto Dominion Bank** (NYSE:TD, NYSE:TD). Both companies reported strong financial results in 2013 and have refrained from raising their payouts for two consecutive quarters.

Who shouldn't we expect a dividend hike from next week? **Bank of Montreal** (TSX:BMO, NYSE:BMO) raised its distribution last quarter and its pro forma payout at the upper half of its payout range. Also given that profit expectations for the company are modest in 2014 and the firm is still digesting its $1.3 billion acquisition of F&C Asset Management, and we can safely assume BMO will not hike its payout on Tuesday.

Also given that **Canadian Western Bank** and **Laurentian Bank of Canada** also hiked their payouts last quarter, we can expect these firms to take a break next week.

Canada's biggest banks are likely getting ready to split their shares. We already saw this last quarter when TD split its share two to one. And with the share prices of Canada's other large financial institutions trading north of $70, it wouldn't be shocking to see the rest follow suit.

After a split, the stock price will be reduced since the number of shares outstanding has increased. Thus, while the number of outstanding shares and the stock price change, the market capitalization remains constant. While these types of actions have no impact on the wealth of shareholders, splits do make it easier for retail investors to buy blocks of shares resulting in improved liquidity.

Foolish bottom line
Shareholders are expecting another round of big dividend hikes from Canada's banking institutions next week. And after reporting record profits last year, the country's most important industry is unlikely to disappoint.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:BMO (Bank Of Montreal)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RY (Royal Bank of Canada)

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