3 Bank Stocks Yielding at Least 4.0%

Description

If you're looking for reliable dividend income, Canada's banks should be a top candidate. We all know why: limited competition, tight regulations, and strong capital ratios help the banks earn consistent profits. And with such a mature market in Canada, there are few opportunities for growth, meaning that the banks often have nothing better to do with their money than pay out a nice dividend.

Below are three Canadian banks you should consider if you're looking for some reliable dividend income:

1. CIBC

If you're a dividend investor, **CIBC** (TSX: CM)(NYSE: CM) is one of the first places you should look. Of all the big five banks, CIBC is the one most focused on Canada – in 2013, 83% of its net income was earned domestically. This comes with its pluses and minuses.

On the plus side, it makes the bank extremely profitable and stable. Last year, return on equity was a very impressive 20.9%. On the minus side, it's difficult to grow earnings; in 2013, net income grew by only 1.8%.

Because of this low growth, CIBC's shares trade very cheaply, at only 10.4 times earnings. And because of the cheap share price, the dividend yield is a healthy 4.0%. So as long as you're not looking to hit any home runs, CIBC should provide you with some nice reliable payouts.

2. National Bank

National Bank (TSX: NA) is Canada's sixth largest bank, and even more concentrated domestically than CIBC. Last year, Canada accounted for 97% of National's net income. As a result, the bank is very profitable, with a return on common equity of 20.6% in 2013. And like CIBC, National has a dividend yielding 4.0%.

The major concern with a bank like National is its lack of diversification. More than two thirds of loans are based in the province of Quebec, a province that has struggled economically in recent years. So while National Bank shares would make a great addition to any dividend portfolio, you shouldn't make it more than a minor position.

3. Laurentian Bank

In every gym class, there's a student who has trouble keeping up with his peers. And in Canadian banking, that role is played by **Laurentian Bank** (TSX: LB). The bank is not nearly as profitable as its larger competitors, with a return on equity of 9.1%.

One of the main reasons is size; Laurentian had only 153 branches by the end of last year while CIBC had over 1,100. As a result, Laurentian's fixed costs are more of a burden than CIBC's – in 2013, expenses totaled 77% of Laurentian's revenue. Over at CIBC, that number was under 50%.

The good news for investors is that Laurentian's share price is very cheap, and as a result its dividend yields a healthy 4.3%. But like National, Laurentian is entirely focused in Canada, with the largest share of income coming from Quebec. Thus its shares should only be a minor part of your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:NA (National Bank of Canada)

Category

1. Investing

Date
2025/07/26
Date Created
2014/05/23
Author
bensinclair