



6 Dividend Champions Yielding Up to 4.2%

Description

Hey bank shareholders! It's time for the collective high-five.

The latest batch of quarterly earnings from Canada's big banks are in. Once again, the industry has demonstrated why it deserves a core position in any income portfolio. In spite of the recent rally, all six of Canada's big banks look like compelling buys.

The reason for the rosy outlook? First, in spite of calls for a slowdown, every segment of the banking sector is firing on all cylinders.

To kick off earnings season, **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)), the country's largest lender, [posted a 15% increase in profits during the second quarter](#), handily beating the street's estimates. The results were driven by record earnings in wealth management and a boost from trading.

Toronto-Dominion Bank ([TSX: TD](#))([NYSE: TD](#)) [also posted solid results](#). The company's second-quarter results showed that profits per share were up 16% as credit card acquisitions helped lift its retail lending business both north and south of the border. Net income climbed to \$1.99 billion, or \$1.04 per share, up from \$1.72 billion, or \$0.89 per share, during the same period a year earlier.

The only disappointment was **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) [which reported a 60% year-over-year drop in net income](#). However, most of this decline was due to a couple of one-time items. After stripping out these non-cash items, the company's core earnings still managed to grow 3% from the prior year to \$887 million, or \$2.17 per share.

Second, the banks are well capitalized. Canadian lenders have been generally less aggressive than their U.S. counterparts, and Canadian regulators required the banks to hold more capital to support loans. As a result, the nation's banks now rank as the soundest in the world by the World Economic Forum.

Finally, Canadian banks stand out like an oasis in a dividend desert for income-thirsty investors. The big six offer yields of 3.5% to 4.2%, higher than any large U.S. or European lender of similar size.

Company	Market Capitalization	Yield
Bank of Montreal (TSX: BMO)	\$49.2B	4.1%
Bank of Nova Scotia (TSX: BNS)	\$84.7B	3.7%
Canadian Imperial Bank of Commerce (TSX: CM)	\$38.0B	4.2%
National Bank of Canada (TSX: NA)	\$14.9B	4.2%
Royal Bank of Canada (TSX: RY)	\$107.6B	3.8%
Toronto Dominion Bank (TSX: TD)	\$99.2B	3.5%

Source: Google Finance

And those payouts are growing. CIBC, **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)), and **National Bank** ([TSX: NA](#)) each raised their dividends between 2% and 4.3% this quarter. Investors are expecting similar hikes from Royal Bank, TD Bank, and **Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) later this summer.

Are Canadian banks a slam dunk? Hardly. There are a number of holes in the bull thesis.

Canadian banks are more expensive relative to their U.S. and European peers when measured on price-to-tangible-book value. Given the more promising growing prospects internationally, foreign names might look more appealing.

And in spite of the strong results we saw this quarter, some are worried that the growth can't continue. Indeed, we're starting to see this slowdown already. While earnings were strong on a year-over-year basis, they were weak quarter over quarter. It's difficult to see where the next source of growth might come from.

We have heard these argument for years, yet the banks continue to defy the naysayers. Bulls are optimistic that the top line can grow through international expansion. And given how inefficient Canadian banks are relative to some of their international peers, there's plenty of fat to trim from the income statement.

The bottom line is that investors shouldn't expect returns to be on par with what we saw over the last five years. However, Canada's big banks will continue to crank out steady profits and dividends in the years ahead. That's why this sector deserves a permanent place in any income portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:NA (National Bank of Canada)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

Category

1. Investing

Date

2025/07/05

Date Created

2014/06/02

Author

rbailieul

default watermark

default watermark