Which Stock Is a Better Bet for Dividend Investors: Toronto-Dominion Bank or Canadian Western Bank?

Description

I hate dealing with banks because of account fees, statement fees, and transaction fees. But that's exactly why I love their stocks.

Each year more of my cash seems to end up in the bank's pockets. As frustrating as it is to pay out the nose for basic services, it's too much hassle to move my accounts. So, I stay and the charges keep rising.

Now, I can't believe I'm the only one who's angry, but how can we fight back? Well, if you can't beat em', join em'. There might be no better investment in Canada than bank stocks.

You can bet there are thousands of other suckers just like me stuck feeding more money into bank coffers. But for investors that means growing share prices and lucrative dividends.

That said, before you plunk down your hard-earned cash, there are also some key differences to consider. Today, we're tackling two of the most popular—**Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Western Bank** (TSX:CWB). Let's see how the two companies stack up on a range of measures.

1. Yield: No contest here. TD yields 3.7%, which is nearly a full percentage point higher than CWB's 2.9% payout. If you're looking for current income, TD is your best bet. *Winner: TD*

2. Dividend growth: Picking out dividend stocks isn't as easy as selecting companies with the highest yields. Dividend growth is also important because we want to ensure our income stream can keep up with inflation.

TD has hiked its dividend by about 10% annually over the past decade. That's great, but it's not as good as CWB. The Alberta rival has raised its dividend by more than 18% per year over the same period. *Winner: CWB*

3. Diversification: For most folks, a bank is a bank. However, over the past few years, most financial institutions have diversified across different sectors and geographies. TD, for example, now generates more than 25% of its revenues from the United States. South of the border, a strong economy is fueling demand for more mortgages, more car loans, and more credit cards.

That's not the case at CWB, Canada's "oiliest" bank. The company has headquarters in Edmonton and has 42% of its loan book in Alberta—an area of the country that's struggling after the recent plunge in oil prices. While oil and gas production loans account for only 1% of CWB's portfolio, more problematic is the indirect exposure that cannot be quantified. If oil prices don't rally soon, investors can expect to see loan losses rise. *Winner: TD*

4. Earnings growth: As a result of this split, The Street has very different expectations for each bank. Over the past few weeks, analysts have been slashing their earnings estimates for CWB. The company is only projected to grow earnings by 6% annually over the next five years. TD, in contrast, is expected to grow profits at a healthy double-digit clip during the same period. *Winner: TD*

5. Reliability: Reliability is important, too. After all, we don't want to see our stream of income dry up without warning, especially if we rely on dividends to pay the bills. That said, TD is one of the most dependable dividend payers in the country, given that the company has been mailing out cheques to shareholders every year since 1857. That's the third-longest streak of consecutive dividend payments in North America. *Winner: TD*

6: Valuation: Both stocks have sold off hard in recent weeks as worries about a slowing economy weigh on equities. Today, CWB and TD trade at 10 and 12 times forward earnings, respectively. That's in line with peers, though below their historical averages. *Winner: CWB*

And the results are in…

Between these two banks, I lean heavily towards TD. Sure, the stock trades at a premium, but sometimes you get what you pay for. TD's higher yield, relative safety, and better growth profile give it the edge in my books.

CATEGORY

1. Bank Stocks
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