



Boost Your Income With Canadian Banks That Are Priced at a Discount

Description

The Big Five Canadian banks have paid dividends for over a century! They are great investments for any long-term portfolio. If you're looking for current income, they're a good fit, yielding 4-4.5%. If you're looking for income growth that beats inflation to maintain your purchasing power, some of the banks have dividend growth of 8-12% a year.

Didn't Warren Buffett say to buy great businesses at fair prices? Well, what's more to like about the banks is that some are priced at discounts of over 13% today.

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) costs \$73.6 per share and yields 4.3%. For the past three years, Royal Bank has increased its dividend at a compound annual growth rate (CAGR) of 10.9%. So, if you'd received \$100 worth of dividends from it three years ago, you would have received \$136 by now, a 36% increase in income.

With a payout ratio of 48%, Royal Bank's projected annual payout of \$3.16 per share is safe. The bank currently trades at a price-to-earnings ratio (P/E) of 11.2, and it normally trades at a P/E of 12.8. This means the shares trade at a fair price of \$85 and are currently discounted by 13.4%.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) costs \$52.9 per share and yields 3.9%. For the past three years, Toronto-Dominion Bank has increased its dividend at a CAGR of 12.1%. So, if you'd received \$100 worth of dividends from it three years ago, you would have received \$140 by now, a 40% increase in income.

With a payout ratio of 49%, Toronto-Dominion Bank's projected annual payout of \$2.04 per share is safe. The bank currently trades at a P/E of 11.4, and it normally trades at a P/E of 12.6. This means the shares trade at a fair price of \$58 and are currently discounted by 8.8%.

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) costs \$60.4 per share and yields 4.6%. For the past three years, Bank of Nova Scotia has increased its dividend at a CAGR of 7.7%. So, if you'd received \$100 worth of dividends from it three years ago, you would have received \$125 by now, a 25% increase in income.

With a payout ratio of 53%, Bank of Nova Scotia's projected annual payout of \$2.80 per share is safe. The bank currently trades at a P/E of 10.5, and it normally trades at a P/E of 12.8. This means the shares trade at a fair price of \$72.8 and are currently discounted by 17%.

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) costs \$75.4 per share and yields 4.4%. For the past three years, Bank of Montreal has increased its dividend at a CAGR of 3.2%. So, if you'd received \$100 worth of dividends from it three years ago, you would have received \$110 by now, a 10% increase in income.

With a payout ratio of 52%, Bank of Montreal's projected annual payout of \$3.28 per share is safe. The bank currently trades at a P/E of 11, and it normally trades at a P/E of 11.9. This means the shares trade at a fair price of \$81.7 and are currently discounted by 7.7%.

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) costs \$98.9 per share and yields 4.5%. For the past three years, Canadian Imperial Bank of Commerce has increased its dividend at a CAGR of 4.2%. So, if you'd received \$100 worth of dividends from it three years ago, you would have received \$113 by now, a 13% increase in income.

With a payout ratio of 50%, Canadian Imperial Bank of Commerce's projected annual payout of \$4.48 per share is safe. The bank currently trades at a P/E of 10.5, and it normally trades at a P/E of 11.4. This means the shares trade at a fair price of \$108.1, and are currently discounted by 8.5%.

In Conclusion

It's true the Big Five banks froze their dividends during the financial crisis. However, all of the banks have grown dividends for four years in a row now, except for Bank of Montreal, which has increased it for only three years in a row.

Royal Bank of Canada and Bank of Nova Scotia are priced at a discount of over 13%, or have a margin of safety of over 13% based on their normal historical multiples. On the other hand, in the past three years Royal Bank and Toronto-Dominion Bank have provided the highest income growth. Because of the above reasons, these three banks are the best choices of the five for long-term income and growth.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)

4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
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