



Income Investors: Which Bank Should You Buy for a Yield up to 5.2%?

Description

Canada's biggest banks are among the oldest businesses in the country. In fact, they've paid dividends since the 1800s! These traditional businesses have a long history and are essential to Canada's economic operations.

Investors are in luck because the banks pulled back last year and are cheaper. As a result, they also have more attractive yields than they did a year ago.

The pullback was likely caused by a weak economy that was spurred by lower commodity prices. In the long term the banks should do fine, and you can get paid a safe, hefty dividend if you invest in them today.

These top banks should be on your radar: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Royal Bank of Canada: 4.5% yield

At \$70.50, Royal Bank is priced at a multiple of 10.5 and yields 4.5%. The bank last yielded 4.5% in 2011. Royal Bank is Canada's biggest bank, and it normally trades at a multiple of 12.6, so it's trading at a discount of 18%.

Last year Royal Bank increased its dividend by 5.3%. Its dividend remains solid. The bank has paid dividends for 145 years, and its payout ratio is only 47% based on fiscal year 2015 earnings.

Most importantly, in fiscal year 2015 Royal Bank earned 19% of revenues from the United States, where it targets corporate, institutional, and high-net-worth clients. Its U.S. operations will continue to be a bright spot in the coming year due to the strong U.S. dollar.

Toronto-Dominion Bank: 4% yield

Since the late 1900s Toronto-Dominion Bank has increasingly focused on retail banking, which has led to strong growth. Last year 91% of its earnings were from retail operations.

At \$51.40, Toronto-Dominion Bank is priced at a multiple of 11 and yields 4%. Toronto-Dominion Bank is not only Canada's second-largest bank by market cap, but it's also North America's fifth-largest bank by total assets and sixth-largest bank by market cap. The bank normally trades at a multiple of 12.4, so it's trading at a discount of 14%.

Last year Toronto-Dominion Bank increased its dividend by 8.5%. Its dividend remains solid. It has paid dividends for 158 years, and its payout ratio is only 48% based on the fiscal year 2015 earnings.

In the fiscal year 2015, 23% of its earnings were from the United States. Like Royal Bank, the bank's U.S. operations will continue to be a bright spot in the coming year due to the strong U.S. dollar.

Bank of Nova Scotia: 5.2% yield

Compared with the other two banks, Bank of Nova Scotia has little U.S. exposure. It earned only 6% of income from the U.S. in 2015.

Additionally, the bank earned 17% of its income from the Pacific Alliance countries (Mexico, Peru, Chile, Colombia), where growth is expected to be in the 2-3% range because of commodity markets exposure. Accounting for inflation, that's 0% growth from those regions. However, over the medium term, Bank of Nova Scotia expects earnings-per-share growth to be 5-10%.

At \$54.20, Bank of Nova Scotia is priced at a multiple of 9.5 and yields 5.2%. The bank last yielded 5.2% in 2009. Bank of Nova Scotia is Canada's third-largest bank, and it normally trades at a multiple of 12.4, so it's trading at a discount of 26%.

Last year Bank of Nova Scotia increased its dividend by 6.1%. Its dividend remains solid. It has paid dividends for 183 years, and its payout ratio is only 49% based on fiscal year 2015 earnings.

In conclusion

These banks are worth buying if you're looking for safe income with juicy yields of 4-5.2%. Bank of Nova Scotia is the cheapest and has the highest yield, but it's expected to have slower growth because of its emerging markets exposure.

Both Royal Bank and Toronto-Dominion Bank have sizable earnings from the United States, and they will benefit from the strong U.S. dollar. The market expects Toronto-Dominion Bank to have higher growth and is pricing it at a premium compared with Royal Bank.

If you are looking for U.S. exposure, you can choose between Royal Bank and Toronto-Dominion Bank. If you are looking for the highest income, go with Bank of Nova Scotia. These banks are great long-term investments, and adding them to your portfolio on the dips will contribute to your overall returns.

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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