



Dividend Investors: Cheaper Prices Equal Buying Opportunities

Description

When dividend investors are in the accumulation phase of building a long-term portfolio, they should root for falling stock prices. The Canadian banks ticked lower on Monday, so it's a good opportunity to take another look at them.

Let's focus on the biggest three of the Canadian banks: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

In the last three weeks Royal Bank rallied more than 6%, Toronto-Dominion Bank rallied more than 5%, and Bank of Nova Scotia rallied almost 9%. It'd seem that investors missed the recent lows. However, long-term investors should keep the big picture in mind.

In a year Royal Bank is still down by 9%, Toronto-Dominion Bank is still down by 5%, and Bank of Nova Scotia is still down by almost 15%. Further, on top of price-appreciation potential, these banks offer yields of 4-5% compared to the roughly 2% interest rate offered by GICs. By buying bank stocks, you're taking on the risk of the businesses compared to lending money to your bank when you receive interest from a GIC.

Which bank is the best buy?

What is your goal? If you only care about secure income, all three banks offer safe dividends with payout ratios of less than 50%. Since Bank of Nova Scotia has the biggest yield of 5%, it'd be your best buy.

However, if you're a total-return investor, you would want to determine which bank has the lowest valuation relative to the other banks and their historical trading levels.

Since 2009 Royal Bank has normally traded at a multiple of 12.3, implying a fair price of \$82 based on its fiscal year 2015 earnings. Today it trades at \$69.30 per share with a yield of almost 4.6%. So, it's discounted by 15%.

In the same period Toronto-Dominion Bank normally traded at a multiple of 12.3, implying a fair price of

\$56.70 based on its fiscal year 2015 earnings. Today it trades at \$61.50 per share with a 4% yield. So, it's discounted by 8%.

In the same period Bank of Nova Scotia normally traded at a multiple of 12, implying a fair price of \$70.30 based on its fiscal year 2015 earnings. Today it trades at \$55.70 per share with a 5% yield. So, it's discounted by 21%.

At Monday's close Toronto-Dominion Bank was the most expensive. It traded at 11.2 times its fiscal year 2015 earnings. Royal Bank was in the middle. It traded at 10.6 times its earnings. Bank of Nova Scotia was the cheapest. It traded at 9.8 times its earnings.

Dividend growth

All three banks have paid dividends for over a century. Since last year Royal Bank's dividend grew 5.3%, Toronto-Dominion Bank's dividend grew 8.5%, and Bank of Nova Scotia's dividend grew 6%. Based on their usual schedules, all three banks are set to increase their dividends in the next three months.

In the last two years Toronto-Dominion Bank chose to increase its dividend at a higher rate only once per year compared with the other two banks, which increase their dividends twice a year. So, investors can expect a bigger increase from Toronto-Dominion Bank in the coming months.

Conclusion

No matter how you look at it, Bank of Nova Scotia is a cheap bank with a solid dividend yield of 5%. Investors buying today for dividends or total returns should be content about their buys three to five years down the road. If you're a long-term investor who doesn't need the money, sitting on it for a decade or more should generate even more handsome gains and dividends.

That said, Royal Bank and Toronto-Dominion Bank are more expensive, likely because their short-term prospects are better than Bank of Nova Scotia, so the market is pricing them at a premium to Bank of Nova Scotia.

These three Canadian banks can serve as core holdings for a diversified portfolio. The pullback is a good opportunity to determine the desired yields you wish to buy them at.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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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