Canadian Bank Dividends: Are They Safe?

Description

Canadian banks hold anchor positions in many dividend portfolios.

With the ongoing trouble in the oil patch and a potential crash in house prices, are the banks at risk of cutting their dividends?

Let's take a quick look at the Big Five to see if investors should be concerned.

Oil risks

The banks have different levels of exposure to the energy sector.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the least exposed with less than 1% of its total loan portfolio directly connected to oil and gas companies.

Bank of Montreal (TSX:BMO)(NYSE:BMO) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have slightly higher exposures, running about 2% of their total loan books.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) rely more heavily on energy loans and are at a greater risk if the oil sector takes a turn for the worse.

We saw the impact of the higher exposure back in January when Bank of Nova Scotia and CIBC fell more than their peers as WTI oil prices dropped below US$30 per barrel.

Bank of Nova Scotia finished fiscal Q3 with $16.1 billion, or 3.4% of total loans, in drawn corporate energy exposure. More than half of the loans are rated investment grade.

CIBC had $7.1 billion in drawn energy loans at the end of Q3 2016, representing about 2.2% of total loans with 68% of the exposure considered investment grade.

Overall, the banks have said their energy exposure lies within their risk comfort zones, and provisions for losses have probably peaked. If oil prices tank again and stay under pressure for an extended period, the mood might change, but dividends shouldn't be at risk.

Housing risks

All of the banks have large Canadian residential mortgage portfolios with varying levels of insured loans versus uninsured exposure and differing loan-to-value ratios on the uninsured mortgages. Exposure also varies by region.

CIBC’s Canadian residential mortgage portfolio is the largest with respect to its market capitalization,so we will use it as a broad measure of risk for the group.

The company finished Q3 2016 with $175 billion in housing loans. The insured component covered 57% of the portfolio, and a loan-to-value ratio of on the uninsured loans was 57%. Management said a 30% drop in house prices accompanied by a spike in unemployment to 11% would result in mortgage losses of less than $100 million, so the market would really have to crash for the bank to take a material hit.

CIBC is considered to have the highest risk regarding Canadian housing, so all of the banks should be able to ride out a similar pullback.

Are dividends safe?

A total meltdown in housing and a prolonged bloodbath in the energy sector could certainly hit the banks so hard they would consider reducing their payouts, but that scenario is unlikely to happen.

None of the Canadian banks cut the dividend during the Great Recession, and TD, Bank of Montreal, and Bank of Nova Scotia have paid a dividend every year for more than 150 years running.

If you are looking for reliable payouts, the Canadian banks are still among the best bets in the market today.

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