



## Which of the Big 3 Canadian Banks Should You Buy?

### Description

Banking is a traditional business that has been around for a long time, and it's unlikely that it'll go away. Additionally, the big Canadian banks hold an oligopolistic position in the Canadian market, so they are likely to remain competitive while making a good profit.

The Big Three Canadian banks in particular have been great long-term dividend investments. These include **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Which is the best bet today?

### Income

The Big Three banks each pay a competitive dividend yield of roughly 4%. Their payout ratios are about 50%. So, their dividends are very sustainable.

Their dividend histories also indicate strong management support. Over the long term, these banks have tended to increase their dividends every year.

In the last two decades or so, it took a financial-crisis-triggered recession to freeze their dividends! Even during such a harsh period, they did not cut their dividends.

Royal Bank of Canada yields 4.1%, Toronto-Dominion Bank yields 3.8%, and Bank of Nova Scotia yields 4.2%. However, the one with the highest yield doesn't necessarily make it an automatic buy.

What will drive future dividend growth is earnings growth. In addition, valuation is also an essential factor.

### Valuation and earnings growth

All three banks have similar forward price-to-earnings ratios. So, they're priced at similar forward valuations. However, in the next three to five years, there are different expectations for their earnings-

per-share growth.

Royal Bank is expected to grow about 4.5% a year. Toronto-Dominion Bank is expected to grow about 6.8% a year. Bank of Nova Scotia is expected to grow about 7% a year.

In other words, even though they're priced at similar forward valuations, Toronto-Dominion Bank and Bank of Nova Scotia have higher growth prospects which, if materialized, should translate to higher price appreciation and dividend growth.

## Conclusion

The Big Three Canadian Banks are quality companies with A-grade credit ratings. They are good options for current income.

The banks have long histories of paying growing dividends, and their current dividend yields of about 4% are rock solid as they only pay out about 50% of their earnings. They are priced at similar forward multiples, which indicate fair valuation.

If you must buy one today, Toronto-Dominion Bank and Bank of Nova Scotia are better choices due to their expected higher growth rates that should lead to higher price appreciation and dividend growth in the near term. Over the long term, it's unlikely you'll go wrong with any of the top three banks.

Any of the Big Three Canadian banks will be a great addition to a diversified portfolio, especially on dips to yields of roughly 5%.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## POST TAG

1. Editor's Choice

## 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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