# Dividend Investors: Which Canadian Bank Stock Is the Best to Buy Right Now?

## Description

For decades, the Canadian banks have been known to investors as reliable sources of dividend income for retirees and those looking to supplement employment earnings. Experienced investors will tell you that capital gains will come and go, but dividends are how you make your money over the long haul. This raises the question, which Canadian bank stock offers the best dividend stream today?



One way to evaluate a prospective dividend investment is by looking at the dividend yield the shares are offering at today's prices. This will tell us which company would offer the best income stream if we were to naively assume no dividend increases in future years. When comparing the current yields for the Big Five Canadian banks, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) clocks with an industry-best 4.4% yield. Second in line is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) with a yield of 3.9%.

Now, while a company's current dividend yield is a good place to start, we can also safely expect that the Canadian banks will continue to grow bigger and dividend increases are surely in the offering for years ahead.  One way to estimate the potential for a company's future dividend increases is to combine our outlook for that company's return on equity (ROE) with the company's retention ratio, or the percentage of earnings that are not paid out to investors as dividends and are rather reinvested in the company.

Here, we are looking for a company with a high ROE combined with a high retention ratio. Once again, CIBC registers as the industry leader with an ROE of 21% for best in class. What's more, CIBC also retains 59% of its earnings, more than any other Canadian bank, which leads to a sustainable growth rate of 12.4%.  This means that if CIBC can maintain its ROE and retention ratio into the future, investors can expect an annual dividend-growth rate north of 12%—an outstanding accomplishment.

When considering the other Big Five Canadian banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) offers investors the second-highest return on equity at 16.7%. Royal Bank pays out approximately 46% of its earnings in the form of dividends, which means it retains the other 54% to reinvest in future growth. Combining the two measures tells us that we can safely expect Royal Bank to increase its dividend at an annual rate of 9.1%—the second-best offering within the sector.

Theory is great, but only up to a point. We would also be wise to look at which company has raised its dividend by the most over the past year. Leading the charge, once again, as the premier dividend investment, is CIBC with a dividend increase of 10.4% in 2016. **Toronto-Dominion Bank** (TSX:TD)( NYSE:TD) comes in at second best with an 8% hike over the past 12 months.

**Which should you buy?**

CIBC is the perfect choice, offering the most attractive prospects for dividend investors across all three measures. CIBC boasts the highest current yield, has the greatest potential for dividend increases, and delivered the largest dividend increase over the past year.

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:RY (Royal Bank of Canada)
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5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:CM (Canadian Imperial Bank of Commerce)
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