Which Top Dividend Stock Is Better for Your TFSA: Manulife Financial Corp. (TSX:MFC) or National Bank of Canada (TSX:NA)?

Description

The last interest rate hike was made on January 9, and the benchmark rate now stands at 1.75%.

And although the Bank of Canada made the decision on Wednesday to leave the rate unchanged, the bias is still for more hikes as the bank attempts to keep inflation in line with its target.

Given this rising interest rate environment, investors should consider the following two dividend stocks: one an insurance stock and one bank stock.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC)

Manulife Financial is worth taking a serious look at for its strong growth and its 4.87% dividend yield.

Manulife stock has been trading at a discount relative to other life insurers, but also relative to its own earnings growth and potential.

But with a market capitalization in excess of $50 billion, Manulife is a force to be reckoned with, with a strong past and a very promising future.

In the last five years, the company has seen a 15% compound annual growth rate (CAGR) in core EPS; a 28% CAGR in the business value in Asia; and strong growth in its global wealth and asset management business, with a 20% CAGR in assets under management — all while maintaining a strong capital position.

Manulife continues to see strong growth in wealth and asset management and in its expansion in Asia, rendering it so much more than a Canadian life insurer.

Recent third-quarter earnings were significantly better than expected, with EPS of $0.75 (compared to consensus estimates of $0.67). And the company increased its dividend by 14% this year.

A 50-basis-point increase in interest rates would have a $100 million impact on net income and a meaningful effect on its minimum continuing capital and surplus requirement ratio.

National Bank of Canada (TSX:NA)

While the banks have to contend with rising credit losses as interest rates rise, on the flip side, they benefit from rising net interest margins in this environment.

National Bank currently pays an annual dividend of $2.60 per share for a dividend yield of 4.46%.

National Bank stock is down 8% in the last year, but with the bank's 2018 results showing strong efficiency gains and strong growth in the international and investment banking divisions, we can expect the stock to outperform.

As evidence of management's confidence in this, National Bank has increased its dividend by 7% in fiscal 2018 after increasing it twice in fiscal 2017 for a 5% total increase. And in 2019, it will be 6.5% higher than 2018.

National Bank's provision for credit losses (PCL) was $83 million more in 2018 versus 2017, and the PCL ratio is expected to be as high as 30 basis points in 2019 versus 24 basis points in 2018, thereby reflecting this changing environment.

National Bank's common equity tier 1 ratio (CET 1) is still a healthy 11.7%, and with the bank aggressively buying back shares, this ratio can be expected to hold up as it did in the 2008 financial crisis.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:NA (National Bank of Canada)

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