



Which Bank Has the Best Dividend? Royal Bank (TSX:RY), TD (TSX:TD) or Bank of Montreal (TSX:BMO)?

Description

It should be a pretty simple thing, right? A dividend yield is just a percentage of a stock's share price. So if you're looking at three blue-chip stocks with one of Canada's Big Six Banks, you should be able to just find the highest percentage. Well, unfortunately there are a few other things to consider.



BMO data by [YCharts](#)

Now, no one can argue that **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) are all solid choices, but each

has a share price nearing \$100. So let's give a quick look at each bank and see what they offer.

TD

At the time of writing this article, TD is trading at \$73.71 per share; it has a dividend yield of 3.68% (\$2.68 per year, or \$0.67 per quarter); the bank is undervalued least \$10 per share, and the stock's fair value should be around \$85 per share, and potentially \$95 per share by year's end.

The company has [one of the best track records](#) of dividend growth on the TSX, with its annual rate rising about 11% over the past 20 years. Where the dividend sits now is great for the \$80 range, but if share prices get any higher, the company may have to reconsider its payout ratio.

But there are two factors that could put a damper on TD: the U.S. and housing. The bank has expanded into U.S., which should be great for investors seeking a piece of the American pie. But should a downturn happen, TD has about 30% of its investments tied to the U.S. Added to this is TD's lower-cost alternatives for lending, which is attractive to clients looking for a low price on loans. Should a housing downturn hit, this could severely impact the company's earnings and credit.

BMO

At the time of writing, BMO is trading at around \$97 per share; it has a dividend yield of 4.11% (\$4 per year, or \$1.00 per quarter); the bank is also undervalued by at least \$10 per share; and the stock's fair value should be around \$105 per share, and potentially \$130 per share by year's end.

If you want a steady dividend, BMO has it. The company has offered a dividend every single year since 1829. That's 190 years of cash for investors. And the dividend yield has increased 24% in the last five years alone.

BMO's focus lies on retail and commercial markets. This makes its 25% investment in the U.S. quite the bonus right now, and should pick up the slack from its Canadian investments. Of the Big Six Banks, BMO has the least amount invested in the housing market, so that should prevent a huge slowdown should a housing crash occur. However, while BMO's passive investment in the Canadian ETF market looks great for now, it may have to [make some bigger moves](#) if it wants its share price to edge higher.

RBC

At the time of writing, RBC is trading at around \$99 per share; it has a dividend yield of 3.96% (\$3.92 per year, or \$0.98 per quarter); the bank is also undervalued by at least \$10 per share; and the stock's fair value should be around \$111 per share, and potentially \$125 per share by year's end.

RBC managed to escape 2018 with some pretty good numbers. The bank announced \$12 billion in profits, with growth looking to continue at 7-10% for the next few years. It also raised its dividend by 8%, and as the company continues these profits, investors should see that dividend continue to rise.

RBC is one of the two largest banks in Canada, but its sights haven't been solely focused on the Canadian market. The company has worldwide recognition, with plans to continue its expansion through the U.S. and Caribbean. However, RBC is largely exposed to the Canadian housing market should a crash occur, and its [historical growth](#) could come to a halt as clients lose the ability to take out loans.

Bottom line

If I'm picking one today, I'm going with RBC. The bank is the most diversified, even with its housing market investments. It has proven it can produce a strong dividend and high profits even during a slow Canadian economy. While TD has the potential to have a rapid growth in its payout ratio, it just doesn't have the sure thing that RBC has. And BMO just isn't taking the daring moves it needs to get its share price much higher.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
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