



The Best Bank Stock for Dividends in 2020 and Beyond

Description

Royal Bank of Canada and **Toronto-Dominion Bank** are the leading banks, with largest scale among the Big Six banks in Canada. However, investors shouldn't automatically expect the two to be the best bank stocks for dividends.

Which bank has the greatest growth?

Growth is an essential driver of future dividend growth. Over the next few years, [TD](#), **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), **Bank of Montreal**, and **National Bank of Canada** are expected to deliver above-average earnings growth rates.

Leading the pack is National Bank with an estimated growth rate of 6%, followed closely by TD with 5.9%.

Which bank has the juiciest yield?

Some investors need income *now*. For these investors, the current dividend income may be more important than the future income. As long as the current dividend income is safe, they don't mind as much about the future growth of the dividend.

All of the Big Six banks have payout ratios of about 50%, which gives a big margin of safety to protect their dividends even when earnings are reduced temporarily during recessions.

As of writing, Bank of Nova Scotia and **Canadian Imperial Bank of Commerce** offer the highest yields of 4.9% and 5.4%, respectively, among the Big Six banks.



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[Bank of Nova Scotia](#), or Scotiabank offers an above-average yield and above-average earnings growth rate; in other words, it's a good balance of income and growth and one of the best banks for dividends.

The bank made several acquisitions in 2018 that diluted shareholders in the near term. As a result, its earnings-per-share growth is expected to be minuscule this year. This is also why the stock trades at a relatively cheap price-to-earnings ratio of 10.4 versus an estimated longer-term earnings growth rate of 4.8%.

Scotiabank has paid a strong dividend since its founding in 1832. Moreover, it has increased the dividend in 43 of the last 45 years. Its payout ratio for fiscal 2019 is estimated to be less than 49%, which reiterates that its dividend is safe.

At the start of this month, Scotiabank came out with a premium banking solution, the Ultimate Package, which offers value and rewards across the saving, spending, and investing needs of customers, in one package.

Among other things, it includes 10 free equity trades in customers' first year and five free trades every year afterward. While free equity trades are nothing new in the U.S., Scotiabank's offering is surely the first of its kind among the big Canadian banks and a way of increasing customer loyalty.

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Date

2025/08/01

Date Created

2019/10/08

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