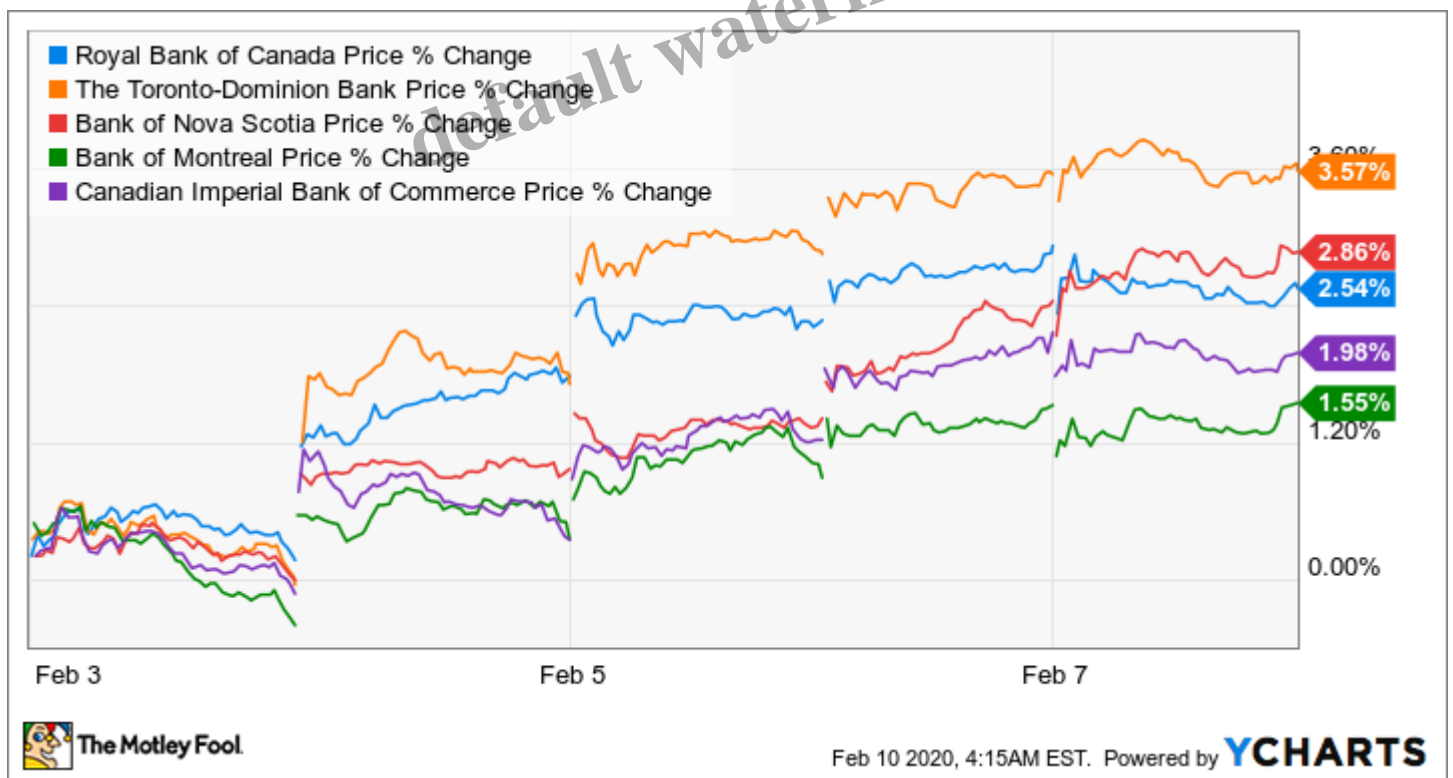




Best Canadian Bank Stock to Buy? Dividend Increases Coming!

Description

The Big Canadian banks all showed signs of market optimism last week, with the **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) stock price taking the lead followed by **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).



RY Price data by YCharts

Dividend increases? Yes, please!

Perhaps it's because most of the [Big Five Canadian banks](#) are expected to increase their dividends

soon. **Royal Bank of Canada** stock usually increases its quarterly dividend in late February.

The same goes for TD stock, BNS stock, and **CIBC** stock. **BMO** stock indeed had the least run up last week; it's the only one that isn't expected to declare a dividend increase by the end of the month.

TD's dividend hike should be the largest because it only increases its dividend once a year, whereas the other banks normally increase their dividends twice a year.

Although BNS stock is switching to an annual dividend hike this year (rather than increasing its dividend twice a year), its payout ratio is higher than TD's stock. Therefore, I expect BNS stock's dividend increase to be smaller than TD's.

How big is the difference of their payout ratios?

Based on BNS stock's current quarterly payout of \$0.90 per share, its annual payout was \$3.60 and its payout ratio is 50% (based on its fiscal 2019 earnings). Doing a similar calculation on TD, its payout ratio was 44%.

Typically, the payout ratios of the banks don't stray far from 50%.

Good valuations

Another reason the stocks popped could simply be that they're trading at [good valuations](#) — either fairly valued or discounted!

At about \$107.50 per share at writing, RBC stock trades at roughly 11.9 times earnings. TD stock trades at about 11.2 times earnings at about \$75.60 per share.

BNS stock trades at about 10.4 times earnings at roughly \$74.30 per share. BMO stock trades at about 10.7 times earnings at about \$102 per share. At about \$110 per share, CIBC stock trades at 9.2 times earnings.

CIBC stock trades at the cheapest price-to-earnings ratio because it's expected to experience the lowest growth rate in the near term.

Longer term, the banks can grow at about 5-7% per year, which is why it's a good time to buy your favourite bank stocks now that they're trading at good valuations.

The best bank stock to buy today

The Big Five banks have five-year returns on equity ranging from about 13% to 18%. Their consistent returns on equity in the teens aren't likely to change in the foreseeable future.

If you're undecided on which bank to invest in, go with the largest-scale ones. Royal Bank and TD Bank fight for the first place across different metrics, including total assets, deposits, and loans, and market cap. Both RY stock and TD stock currently offer a yield of 3.9%.

You can also go with the one with a mix of scale and undervaluation. That'd be BNS stock, which

provides a yield of 4.8%.

TD Bank is a top North American retail bank with about 90% of earnings from lower-risk retail banking. It has more than 26 million customers globally — more than half of which are digital customers. The bank has compounded its dividend per share at an annualized rate of about 11% since 1999!

Scotiabank has positioned itself for greater organic growth from the higher-growth markets of Mexico, Peru, Chile, and Colombia, while it maintains a strong and highly profitable position in Canada and a U.S. presence that serves national and multinational corporations.

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