Royal Bank (TSX:RY) to CIBC (TSX:CM): Are Canadian Bank Dividends Safe?

Description

The 2020 market crash is giving Tax-Free Savings Account (TFSA) and RRSP investors an opportunity to get above-average dividend yields from the Canadian banks.

default watermark

Are bank dividends safe?

The share prices of Canada's five largest banks fell off a cliff in the first four weeks of the stock market correction. While the rebound off the lows is encouraging, some analysts expect the market to retest the March nadir.

Let's take a look at how the bank stocks have traded so far in the crisis to see if one should be on your dividend buy list.

Royal Bank saw its share price fall from $109 to $72. At the time of writing, it trades at $86.50 and offers a 5% yield.

TD fell from $76 per share to $49 and is now trading at $58.50 with a 5.4% yield.

Bank of Nova Scotia slipped from $74 to $47 per share. The stock trades close to $55 at writing and gives investors a yield of 6.5%.

Bank of Montreal went from $104 per share in January to $56 in March. It has bounced back to $73, but investors can still get a yield of 5.8%.

Finally, **CIBC** plunged from $110 per share to $75. It currently trades around $83.50 at writing and serves up a juicy 7% yield.

Bank risks

One way to gauge the market’s risk assessment is to look at the trailing 12-month price-to-earnings (PE) multiple the market is giving each of the banks.

Earnings are going to take a hit in 2020, and trying to put an accurate valuation on the banks right now is difficult, but the metric gives investors a sense of where the market might see the most potential pain.

The lower the multiple, the higher the perceived risk. You would also expect the dividend yields to correspond, as investors want to be paid more for taking on riskier investments.

CIBC

CIBC trades at 7.5 times earnings, the lowest PE multiple of the group. The bank also offers the highest dividend yield.

CIBC has the largest relative exposure to the Canadian housing market, which might explain the low valuation. In the event that the spike in unemployment triggers a wave of mortgage defaults, house prices could tank, which would likely hit CIBC harder than its peers.

Bank of Nova Scotia

default watermark

Bank of Nova Scotia trades near 8.1 times earnings and provides the second-highest dividend yield.

Investors are likely worried that the large Latin American operations could take a significant hit due to the slowdown in the global economy. Uncertainty surrounds the impact of the pandemic on the core Pacific Alliance markets of Mexico, Peru, Chile, and Colombia, where the bank has the bulk of its foreign operations. The international group accounts for roughly 30% of Bank of Nova Scotia’s net income.

Bank of Montreal

Bank of Montreal trades at 8.3 times earnings and its dividend yield falls in the middle of the pack.

The bank’s large U.S. business is primarily located in the Midwest states. The U.S. has the largest recorded coronavirus outbreak of any country and the economic fallout could hit Bank of Montreal’s American operations particularly hard.

TD

TD trades at 8.9 times earnings.

While Canada’s number two bank by market capitalization is often cited as the safest pick, its large U.S. presence could be cause for some concern. TD operates more branches in the United States than it does in Canada and derives more than 30% of net income from the U.S. business.

Royal Bank

Royal Bank has the highest PE ratio at 9.6 times earnings. The market appears to think it is the lowest risk play right now. Royal Bank reported the best return on equity and highest CET1 ratio among its peers in the most recent quarter and is known for its balanced revenue stream.

Which Canadian bank stock should you buy?

The dividends should be safe at all of the top five Canadian banks.

They maintained the payouts through the Great Recession and have strong capital positions to ride out the downturn. In addition, the government is putting measures in place to ensure the banks have adequate liquidity to keep lending.

Ongoing volatility is expected, but buy-and-hold income investors should be comfortable owning any of the stocks.

If you want the highest yield and are willing to take on added risk, CIBC offers a very attractive yield. Investors who still want above-average returns with less perceived risk might want to make Royal Bank the first choice today.

default watermark

An equal investment across all five banks at the time of writing would provide an average yield of close to 6%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/24
Date Created
2020/04/15
Author
aswalker

default watermark

default watermark