Canada’s Top Dividend Stocks to Buy in May

Description

It doesn’t seem to be the right time to buy Canada’s top banking stocks. Their earnings are under threat as the economy, hurt by the coronavirus pandemic, takes a deep dive and bad loans soar.

Apart from worsening loan losses, Canada’s top banking stocks are also facing an uncertain future when it comes to making money by lending. After cutting the benchmark interest rates to just 0.25%, The Bank of Canada is likely to remain on the sidelines for an extended period as it fights one of the deepest recessions in the nation’s history.

Rates at the rock-bottom level means banks won’t be able to make much money on their lending to consumers and companies. Another setback to top banking stocks will come from the shrinking demand for corporate loans amid widespread bankruptcies and shutdowns.

Despite this bleak picture, investors should note that the best to buy top dividend stocks is when their prices are low and their yield is attractive. If you’re able to identify stocks which can sustain the downturn, then any market downturn is an opportunity to build your long-term position.

Peak in loan provisioning is near

According to **BMO Capital Markets**’ research, loan losses for the banks are set to rise because of business shutdowns and low oil prices. That said, the research also shows that peaks in banks’ loan-loss provisioning have historically indicated periods of strong outperformance for the sector.

Investors should be looking for big increases in provisions for losses as a potential sign that the major banks feel they have built enough of a buffer against potential virus- and energy-related defaults to weather the financial storm, the BMO report, cited by *The Globe and Mail*, says.

A sharp rise in loss provisions – 30% or more – would indicate the “front loading,” and a potential sign of peak provisioning.

Another comforting factor for investors in the nation's top banking stocks is that their mortgage portfolios are likely to sustain the recession due to strong underlying demand for housing.

April activity shows that real estate transactions in Toronto were down by two-thirds in April on a year-over-year basis, but the average selling price was little changed. On a year-over-year basis, the benchmark price rose 10%.

Among the top six banks in Canada, my two favourite names are **Toronto-Dominion Bank** and **Royal Bank of Canada**. Both lenders have strong balance sheets, very diversified revenue streams and a long track record to deal with the economic shocks.

After falling 20% this year, TD stock now trades close to $58 a share, with a dividend yield surging to 5.54%. RBC, after falling 16% during the same period, now trades at $86.50 a share and yields more than 5%.

Bottom line

Investors whose aim is to earn higher dividend yield should be ready to deploy their cash in this market downturn and buy their favourite dividend stocks that have become very attractive. Top Canadian banks are certainly among them.

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