ALERT: Canadian Bank Dividend Cut! Will Other Canadian Bank Stocks Follow?

Description

Some investors were surprised to wake up to **Laurentian Bank** (TSX:LB) slashing its dividend by 40% last week. This is big news because it's "The first such move by a major Canadian lender in almost three decades," according to CBC.

Will other Canadian bank stocks follow?

That's an important question to answer because many investors hold bank stocks as a part of their diversified portfolios, including retirees and other investors who rely on the banks' dividend income.

Let's first explore the events that led up to Laurentian Bank cutting its dividend.

Slow growth

Historically, Laurentian Bank had little growth. From fiscal 2009 to 2017 (that ended on October 31), its best year before the December 2017 mortgage setback, the bank reported net income growth of 7.8% per year from $113.1 million to $206.5 million.

However, on a per-share basis, its earnings only increased at a compound annual growth rate of 3.1% from $4.23 to $5.40 in the period.

Setbacks

After the huge setback from revealing its problematic mortgages in December 2017, the bank haven't really recovered.

Since the end of 2017, the stock fell about 50%. There was plenty of time to get out of the bank stock if you had it.

From November 2009 to February 2018, a Laurentian Bank investor would have gotten roughly market-matching total returns of about 7% per year.

I specifically chose points that were in the middle of the range to avoid extremes of troughs and peaks, which should more or less mimic the returns an average investor would get from an investment in Laurentian Bank.

Low energy prices followed by COVID-19 disrupting the economy and reducing the demand for energy made Laurentian's situation worse.

Fiscal Q2 results

Laurentian Bank reported diluted earnings per share of $0.13, down 81% from the prior year's quarter. The bank had become more efficient with a decline in 3% non-interest expenses. The big drag on net income was its provisions for credit losses (PCLs) of $54.9 million that jumped 268% year over year.

The bank is setting this amount of money aside to cover potential bad loans that are expected to jump due to COVID-19 impacts.

The bank's payout ratio leaped to the 60% range last year, which was markedly higher than the 30% to mid-40% range between 2007 and 2018. That was a warning sign. However, the bank could still have kept its dividend intact if it weren't for COVID-19.

To be prudent and to improve financial flexibility, the bank just decided to cut the dividend materially.

Will other Canadian bank stocks also cut their dividends?

This must be reviewed on a case-by-case basis. Today, let's look at **Canadian Western Bank**, which is more comparable to Laurentian Bank.

Here are two easy checks: dividend growth history and payout ratio.

Canadian Western Bank has increased its dividend for 28 consecutive years (compared to Laurentian's 12 years before last week's cut). CWB's payout ratio was about 34% last year, which was much lower than Laurentian's.

Notably, though, CWB's payout ratio has ranged from 20-40% since 2007. Historically, it tends to maintain a lower payout ratio due to the geographies it's in, including about a third of its loans currently in Alberta — an economy that's more sensitive to energy prices.

This week, I will take a deeper dive into the big Canadian banks on their dividend safety. Stay tuned!

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:LB (Laurentian 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
2025/08/17
Date Created
2020/06/01
Author
kayng