



## Will the Big 3 TSX Bank Stocks Cut Their Dividends?

### Description

**Laurentian Bank** [cut its dividend](#) by 40% last week. No doubt the COVID-19 impacts were a culprit. Should investors be worried about other TSX bank stocks cutting their dividends, too?

Today, we'll focus on the Big Three TSX bank stocks: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

### Dividend history and payout ratio

RBC stock has increased its dividend for nine consecutive years with a five-year dividend-growth rate of 7.5%. Its payout ratio (based on the current quarterly dividend and last year's earnings) would be about 49%. Under a normal market, that's roughly where its payout ratio would be.

TD stock's dividend-growth streak is also nine consecutive years. Its five-year dividend-growth rate is even better at 9.5%. Its payout ratio based on last year's earnings would be roughly 47%.

Nine consecutive years — that's also BNS stock's dividend-growth streak. The bank stock's five-year dividend-growth rate is 6.4%. Based on last year's earnings, BNS stock's payout ratio would be roughly 50%.

During the last financial crisis, the banks were able to maintain their dividends, which illustrated the strength of their businesses. As they recovered, they began increasing their dividends again, hence, having the same dividend-growth streak.

### A glimpse of COVID-19 impacts

COVID-19 is disrupting the economy. The banks' fiscal Q2 results provide a glimpse of the impacts.

RBC stock reported diluted earnings per share of \$1.00, down 55% from the prior year's quarter. As a result, the payout ratio for the quarter was about 108%. The bank's return on equity dropped from last

year's 17.5% to 7.3%.

It increased its provisions for credit losses (PCLs) to \$2.8 billion. The PCL ratio on total loans was 1.65%, up 1.39% from the previous quarter, because the bank wanted to set aside more money to cover the increase of bad loans from COVID-19 impacts.

The actual PCL ratio on impaired loans was 0.37% compared to 0.29% in the prior year's quarter. This is still a low percentage. So, there are no alarm bells here, but it's worth keeping watch.

A similar scenario reiterates across the other big banks.

[TD](#) stock reported diluted earnings per share of \$0.80, down 50% from the prior year's quarter. This resulted in a payout ratio of under 99% for the quarter.

BNS stock's diluted earnings per share was \$1.00 for the quarter, down 42% from the prior year's quarter. This resulted in a payout ratio of 90% for the quarter.

## Will the Big Three Canadian banks cut their dividends?

The three big Canadian banks experienced huge cuts in their earnings. Partly, it's because they are raising reserves to set aside more money to cover for an increase of bad loans from COVID-19.

The situation will be temporary, as COVID-19 will come to pass. Therefore, their payout ratios will only be temporarily high. Additionally, Canada should be one of the first countries to recover from COVID-19 disruptions, because the spread of the virus is less severe here. These TSX bank stocks with at least 40% of their revenues coming from Canada will benefit from the expected quicker recovery.

Since there's a good chance their payout ratios will be below 100% for the full fiscal year, I don't think they will cut their dividends. To be prudent, they might freeze their dividends when their usual schedules to increase their dividends come around.

## The Foolish takeaway

TSX bank stocks RBC, TD, and BNS are depressed to levels similar to the financial crisis about 10 years ago. This is a once-in-a-blue-moon opportunity to buy these quality banks at meaningful discounts to what they're intrinsically worth. Thanks to the lower stock prices, they now offer elevated yields of 4.6%, 5.1%, and 6.3%, respectively.

### CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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