



## Canadian Bank Stocks: Are the Dividends Safe?

### Description

Last week, news broke that the Federal Reserve had forced U.S. banks not to raise their dividends until the end of September. The news came after a brutal first quarter that saw bank profits slump as much as 89%.

The Fed's policy was intended to help the financial system cope with the COVID-19 fallout. While bank investors generally expect big yield, payout ratios are becoming unsustainable. Rumors have been circulating in the media that banks like **Wells Fargo** will not only not raise, but actually *cut* their dividends, indicating a desire to contain risk.

### Are Canadian banks in the same boat?

For Canadian investors, the situation in the U.S. is worth paying attention to. Canadian banks are facing the same risk factors as their American counterparts. While Canada's banking system is generally seen as "safer" than America's, the headwinds from COVID-19 are unprecedented.

In light of this, we could expect dividend cuts from Canadian banks. In fact, some have already started cutting: **Laurentian Bank** recently [slashed its dividend](#) by 40% following an earnings miss.

Q1 has already been rough for Canada's big banks. All of them saw earnings decline thanks to higher PCLs. However, apart from Laurentian, dividends have mostly been maintained. That might look like an encouraging sign for now, but if Q2 is a mess, cuts could be coming.

### Major risk factors

As previously mentioned, Canadian banks face many of the same risk factors as their American counterparts.

In fact, many of them have American operations themselves. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is one Canadian bank with a [huge U.S. presence](#), with over 30% of its income coming from

the States. Any risk factors impacting U.S. banks will impact TD.

Not only does it have a huge retail banking presence in that country, it also owns part of **TD Ameritrade**, a major U.S. brokerage. Both of those business segments are being affected by the headwinds facing the U.S. financial system.

Canadian banks have their own home grown issues to deal with. Canadian banks have extremely high exposure to oil & gas loans, which are seen as likely to default. The oil & gas industry has come under pressure thanks to tanking demand for oil.

At one point, WTI oil futures turned negative. This caused serious trouble for the tar sands; many Canadian oil companies posted negative earnings in Q1.

## Foolish takeaway

The COVID-19 crisis has put banks in a tough place. While they weren't hit as hard as airlines or hotels, they were affected in a major way.

The longer the pandemic goes on for, the more likely it is that large loans will go into default, forcing banks to cut their dividends. So far, we haven't seen that materialize. But it would be naive not to prepare for the possibility.

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1. Bank Stocks
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