3 Banks You Can Bet on Forever

Description

Canada's banks are some of the best dividend stocks in the world. These financial juggernauts have expanded across the globe and entered new business verticals that diversify their earnings. Meanwhile, their cash flows are hefty enough to support impressively high dividend yields.

However, not all banks are created equal. Some have better prospects and lower risk lurking in their balance sheets. That makes them more reliable for long-term investors. Here's a list of the top three best dividend stocks in the banking industry.

Canadian Imperial Bank of Commerce

On several fronts, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is one of the best dividend stocks in the country. The bank seems to strike the perfect balance between a sustainable payout and high yield coupled with reasonable valuation.

As I write this, the stock is trading at a price-to-book (P/B) ratio of 1.16. That's far below the 1.6 or 1.7 ratio of comparable large banks. Being closer to book value means there's a margin of safety for investors. Banks are expecting losses on book value, as people default on their mortgages and loans in the coming months. But a lower P/B ratio means that has been priced in.

Meanwhile, CIBC offers a lucrative 6% dividend yield and pays out less than two-thirds (63.4%) of earnings in dividends. It's in good shape to support your need for passive income for the long term.

Toronto Dominion Bank

I like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) for all the same reasons I like CIBC. It's a large bank with a sizable dividend trading at a reasonable valuation. However, TD Bank offers something CIBC doesn't: international diversification.

To be specific, TD's American operations are one of the most attractive aspects of the business. TD Ameritrade and TD Bank USA are well-performing financial institutions in the largest economy in the world. That offers investors U.S. dollar exposure.

Meanwhile, the stock is trading at a P/B ratio of 1.3 and offers a 5% dividend yield. It's also much more conservative than CIBC, holding back nearly half of earnings for reinvestment or reserves. The dividend-payout ratio is just 52.8%. That makes it far more sustainable than most other big banks.

This is the best dividend stock in the banking sector.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) offers a dividend yield that's comparable to the other two on this list. It also holds back a sizable chunk of earnings for reserves, that should buffer any losses in the coming months. However, the stock is *cheaper* from a valuation perspective than its two rivals above.

The stock is trading at less than book value by 3%. Meanwhile, the dividend-payout ratio is 55.8%. That means BMO's stock has a margin of safety built in. Investors could probably bet on the company long term and expect dividends to expand at a reasonable clip. That's despite the current crisis.

Bottom line

Canadians banks are some of the best dividend stocks. The ones with the lowest payout ratios and valuations are the least-risky investments for 2020 and beyond.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:TD (The Toronto-Dominion Bank)

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1. Investing

Date
2025/07/26
Date Created
2020/08/20
Author
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