Canadian Banks Report Next Week: Are Their Dividends at Risk?

Description

Here at Motley Fool, we cover Canadian banks with purpose and intent. Canadian bank stocks have long provided investors with safe, reliable, and growing dividend income. Their track records of dividend payments are exemplary. But the coronavirus crisis has put unprecedented pressure on most industries, including the banking industry.

What does this mean for dividend payments from Canadian banks? Are they at risk?

Laurentian Bank: the first bank to reduce its dividend

Regional banks like **Laurentian Bank** (TSX:LB) lack the size, scale and diversity that the big Canadian banks benefit from. The bank is predominantly located in Quebec and serves many of the small to medium sized businesses. Hence, it has a higher risk profile.

It therefore comes as no surprise that Laurentian Bank was the first Canadian bank to cut its dividend. And it was a whopper of a cut, 40%. Looking ahead, Laurentian Bank will continue to be hardest hit in this crisis.

Are the Big Five Canadian banks facing the same kind of risk?

The longer the coronavirus crisis goes on, the greater the certainty of dividend cuts across the board. Even the best of the best will eventually feel the pressure. Next week, we will receive quarterly updates from the Canadian banks. We can expect a bumpy ride.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest bank. It is a top-quality franchise that benefits from a diversified business mix and North American scale. This is all underpinned by a strong risk culture and its industry-leading return on equity (ROE).

But can all of this save Toronto-Dominion Bank from a dividend cut? Yes, but only up to a point. So far in this covid-19 crisis, Toronto-Dominion Bank has recorded massive provisions for credit losses. Also, TD Bank has sizable operations in the United States. Once a clear strength, this could be turning into a weakness at this point. TD Bank has exposure to oil and gas loans here in Canada, which are at risk.

A Canadian bank trading below book value

Bank of Montreal (TSX:BMO)(NYSE:BMO) is Canada's eighth-largest bank by assets. The bank has grown its dividend by a compound annual growth rate of 6% since 2005. Today, the Bank of Montreal stock trades below book value — just one of the reasons to like this a bank stock.

Another reason to like Bank of Montreal stock is its loan portfolio. Its dividend is supported by the fact that it has one of the lowest exposures to the Canadian personal and commercial banking (P&C) industry. Finally, second-quarter strength in the bank's wealth management segment was promising. It posted good asset growth, allowing the segment to hold up well.

The bottom line

All Canadian banks are facing the real possibility of mounting credit losses. The effects of the COVID-19 pandemic and the resulting shut downs will be huge. While we must recognize the fact that dividend cuts may be looming, we should also recognize the resilience of our Canadian banks.

Be ready to add bank stocks on weakness; they will be part of the economic recovery and they will survive and thrive at the end of the coronavirus crisis.

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4. TSX:LB (Laurentian Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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