



1 Strong Reason Why You Should Start Loving Bank Stocks

Description

The lower interest rate environment has made bank stocks unattractive. Higher provisions amid COVID-19 pandemic and heightened competition further plays spoilsport. However, there is one strong reason why you should start loving the top TSX bank stocks, and that is their stellar dividend yields.

Investors should note that the Canadian banks remain well capitalized. Sustained momentum in interest-bearing assets, improving efficiency, and an expected reduction in provisions indicate that investors could rely on bank stocks for squeezing higher yields.

Without further ado, let's focus on three bank stocks offering [high yields that are safe](#).

Bank of Nova Scotia

With a high yield of 6.4%, shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are must-haves in your portfolio. Rate cuts and higher provisions for credit losses took a toll on the shares of Bank of Nova Scotia, which is down about 24% year to date. Meanwhile, a weak economic outlook and higher jobless claims further remain drags.

However, Bank of Nova Scotia's exposure to the high-quality growth markets and sustained increase in loans and deposits positions it well to generate strong earnings, as the economic activities gain pace.

The bank derives the majority of its earnings from the relatively stable segments like personal and commercial banking and wealth business. Meanwhile, it continues to gain share in its core markets.

Investors should note that Bank of Nova Scotia has performed well in the pre-pandemic phase with its earnings growing at a compound annual growth rate (CAGR) of 8% in the last 10 years. Its consistent performance has helped the bank to increase the dividends at a CAGR of 6% from 2009 to 2019.

While near-term challenges could hurt its bottom line, the decline in its stock price presents an excellent opportunity for long-term investors to benefit from its solid dividends and share price appreciation.

Royal Bank of Canada

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is another top bank stock known for its stellar history of boosting investors' returns through higher dividends. In the past decade, the bank's dividends have grown at a CAGR of 7%, which is encouraging. Meanwhile, it paid \$1.5 billion in dividends in the [most recent quarter](#).

Despite a tough operating environment, Canada's top lender continues to grow its loans and deposits, which is driving its pre-provision earnings. The bank is well capitalized and has very little exposure to the vulnerable sectors, thanks to its diversified portfolio of loans.

The bank's dividend payouts remain safe, thanks to the sustained growth in volumes and improved efficiency. Currently, Royal Bank of Canada offers an attractive yield of 4.4%, while its average payout target of 40-50% is sustainable in the long run.

Toronto-Dominion Bank

With a history of paying dividends for 164 years, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is among the top dividend-paying bank stocks. Its dividends have grown at an average annual rate of 10% over the past 20 years. Also, the annualized dividend-growth rate is the highest among its peers.

The stellar growth in the dividends came on the back of the bank's ability to increase its earnings consistently and strong risk management. Its retail focus business and loans and deposits volumes growth support its payouts.

Toronto-Dominion Bank is well capitalized and maintains a high-quality balance sheet. Moreover, its diversified revenue channels and higher activity in the wealth and insurance businesses are likely to cushion its bottom line, despite challenges. The bank currently offers a forward yield of 4.9%.

Bottom line

Investors should note that the provision for credit losses for banks is likely to decrease on a quarter-over-quarter basis, which is likely to lend support to their stock prices. Meanwhile, their solid yields are likely to boost your returns.

CATEGORY

1. Bank Stocks
2. Coronavirus
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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)
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