3 Top Canadian Banks With Over 5% Dividend Yield

Description

Despite the headwinds from lower interest rates and higher near-term provisions, I am fairly confident about the prospects of the Canadian banks. Besides being well capitalized, top Canadian banks are witnessing consistent growth in loans and deposit volumes, which is encouraging. Further, investments in digital capabilities and improving efficiency are positive.

The macroeconomic environment remains weak. However, the provisions for credit losses are likely to go down sequentially, thus adding a cushion to the bottom line. While long-term investors could expect strong capital appreciation, the high dividend yields of these banks are likely to boost the returns further.

Investors should note that most of these banks have been paying dividends for long and the trend could continue in the coming years. So, let’s take a look at three banks offering over 5% dividend yield.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has been paying dividends for 164 years, which is commendable. Moreover, the bank’s annual dividends have grown from $0.46 in 2000 to $3.01 in 2020 , reflecting an annualized growth of 10%.

While the pandemic has led the bank to temporarily suspend dividend hikes, its ability to generate strong earnings, gradual pickup in economic activities and an expected decline in the provisions for credit losses indicate that its 5.2% dividend yield is safe. Moreover, its target payout of 40-50% is sustainable in the long run.

Toronto-Dominion Bank’s strong volume growth in the banking businesses and continued strength in the wealth and insurance revenues are likely to support its payouts. Moreover, a strong balance sheet and high liquidity indicate that the bank could navigate the current crisis with ease.

Bank of Montreal

Bank of Montreal's (TSX:BMO)(NYSE:BMO) diversified businesses and continued volume growth help the bank to deliver robust earnings growth, which support its dividend payouts. Investors should note that the Bank of Montreal has been paying dividends uninterruptedly since 1829. Further, its dividends have grown at a compound annual growth rate (CAGR) of more than 6% over the last 15 years.

The bank's loans and deposits continue to grow at a modest pace, despite the disruption from the pandemic. Moreover, strong expense management and improving efficiency are likely to cushion its bottom line and payouts.

With its shares down over 21% year to date and consistent dividend growth, Bank of Montreal offers a lucrative annual yield of 5.4%.

Bank of Nova Scotia

With its high-quality earnings and strong expense management, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) continues to boost its shareholders' returns through consistent dividend growth.

Since 2009 to 2019, Bank of Nova Scotia's adjusted EPS has increased at a CAGR of 8%. Meanwhile, the bank's dividends have grown at a CAGR of 6% during the same period.

Bank of Nova Scotia derives most of its earnings from stable businesses like wealth and personal and commercial banking. Besides, it continues to expand in core markets. While the pandemic could continue to pose challenges in the short-term, the bank is likely to recover fast with the improvement in the economy. Currently, Bank of Nova Scotia offers a high-yield of 6.6%. Moreover, its low target payout is sustainable in the long term.

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
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