2 Big Bank Stocks With Rock-Solid Dividends

Description

The limelight shifts to the financial sector following the lifting of restrictions on dividend increases by the banking regulator recently. Nearly all of the Canadian Big Banks had a pleasant problem of excess capital after Q2 fiscal 2021. Their hands were tied for more than 20 months to do share buybacks and reward investors with higher payouts.

Market analysts expect dividend increase announcements to coincide with the presentation of Q4 fiscal 2021 results later this month. Yield-thirsty investors are second-guessing which Big Bank would be the most generous. Bloomberg Intelligence (BI) drew a scenario regarding the anticipated moves by the country's top lenders.

Potential dividend increase

Paul Gulberg, an analyst at BI, said if banks peg the payout ratio at pre-pandemic level or 45%, the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **National Bank of Canada** (TSX:NA) are likely to deliver the most significant percentage increase. Furthermore, Gulberg estimates the Big Banks' average dividend increase to be 18%, with 2% room for share buybacks.

If you're excited to invest in bank stocks this November, go for BMO or NA. Apart from the larger payouts, the dividends of the fourth and sixth largest Canadian banks are rock-solid. Your income streams would be for decades like the Canada Pension Plan (CPP) and Old Age Security (OAS) pensions.

Strong financial performance

Darryl White, CEO of BMO Financial Group, said about the Q3 fiscal 2021 results, "Operating momentum across our diversified businesses continues to drive strong financial performance." BMO's net income and adjusted net income rose 85% and 82% versus Q3 fiscal 2021 (quarter ended July 31, 2021).

Notably, the provision for credit losses (PCL) decreased from $1 billion to $70 million. On a year-to-date basis (after three quarters in fiscal 2021), BMO's net income reached $5.6 billion compared to the $3.5 billion in the same period last year. During the quarter, net income growths of BMO's Canadian and U.S. personal and commercial banking segments versus Q3 fiscal 2021 were 155.5% and 110.3%.

At $139.03 per share, BMO pays a 3.08% dividend with a payout ratio of 39.55%. This year, the dividend pioneer's dividend track record is now 192 years.

The environment is conducive to growth

The National Bank of Canada is the top-performing Big Bank stock, thus far, in 2021 (+49%). At $104.30 per share, the trailing one-year price return is 54.29%. This $35.17 billion bank pays a decent 2.73%. However, as Bloomberg Intelligence notes, the payout ratio is low (34.93%).

During the presentation of NA's Q3 fiscal 2021 results, NA President and CEO Louis Vachon, said, "The continued improvement in the economic environment was conducive to growth, as demonstrated by a sustained increase in our revenues." Net income was 39% higher than Q3 2021 and 51% more in the nine months ended July 31, 2021, compared to the same period in fiscal 2020.

NA's U.S. Specialty Finance and International business segment reported the most significant net income growth (85%), followed by personal & commercial (48%) and wealth management (30%). Expect NA to be active in North America's fintech ecosystem after boosting its stake in leading fintech company Flinks to 80%.

Ever-reliable

With the fast-rising inflation and possible recession, it would be best to stay invested in reliable dividend-payers like BMO and NA. Both stocks will let you sleep soundly.

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