Which Bank Stock to Buy Ahead of a Dividend Raise?

### Description

One reason the Canadian banking sector is considered one of the safest in the world is the strong regulations governing these banks. We saw an example of it earlier in 2020, when the Office of the Superintendent of Financial Institutions (OSFI), which acts as the regulator for Canadian banks, banned Canadian banks from raising dividends or executive compensation and from buying back stocks.



This ban ensured that the banks had enough capital to "sustain the flow of cash" in the country during an economically harsh time.

That ban has been lifted, and now the Big Six could be growing their dividends, starting with the first quarter of 2022.

## Oldest dividend payer in the country

The **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has the distinction of being *the* oldest dividend payer in the country. It started paying dividends to its investors in 1829. And it has always been relatively generous with its payouts and very consistent with its yield, though the credit for that goes to its stable market value. However, the post-pandemic momentum of the financial sector in general — and the banking sector in particular — has catapulted its stock.

The share price has grown by 123% since its market crash valuation in 2020. This has resulted in the bank trading at a 33.4% premium from its pre-pandemic peak. This pace of growth is unusual for BMO stock, and even though the growth is financially adequately sustained, a correction might be on the horizon. The current yield is 3%, though it might grow if a correction dips the stock.

As for dividend growth, the bank grew its payouts by 20.4% since 2017, including a year without growth (2021).

## The second-oldest dividend payer in the country

**Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is just three years short of the top seat, as the bank started paying dividends in 1832. From a market value perspective, the stock has also been relatively stagnant in the last five years before the pandemic, but it hasn't grown at the crazy pace of BMO post-pandemic. The growth from the market crash valuation has been 65% so far and 10.75% from its pre-pandemic peak.

Its long-term growth prospects are relatively decent enough, indicated by its 10-year compound annual growth rate of 9.9%. The 4.35% yield is also considerably more attractive. The bank has grown its payouts by 18.4% since 2017. The payout ratio makes its dividends quite safe and sustainable. The bank dividend growth BNS offers might be only slightly lower than Bank of Montreal, if the history is any indication, though its yield gives it an advantage right away.

## The smallest of the big six

The smallest of the Big Six banks, that is, the **National Bank of Canada** (TSX:NA), packs the most significant growth punch of the lot. Before the post-pandemic momentum skewed the growth numbers for most Canadian banks, the National Bank boasted one of the best 10-year CAGRs in the banking sector, and in fact, still does.



The stock grew an incredible 145% after the pandemic, making it 40.9% more "expensive" than it was at its pre-pandemic height. Like BMO, this looks like a recipe for a correction, and the bank might soon see its valuation dip, which would be a significantly better time to buy it.

And if we consider its dividend growth prospects, gauging from how much the bank grew its payouts in the last five years (26.7%), it might offer the best dividend "bump" among these three banks.

## Foolish takeaway

Canadian banks are already coveted their dividends and they would become even more desirable if they announced significant growth in their payouts starting in 2022. But many banks might sit on that announcement to reinvigorate the market if the correction arrives before that.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BMO (Bank Of Montreal)
4. TSX:BNS (Bank Of Nova Scotia)

5. TSX:NA (National Bank of Canada)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

**PP NOTIFY USER**

1. adamothman
2. arosenberg

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing



**Date**
2025/06/30
**Date Created**
2021/11/25
**Author**
adamothman