



Canadian Banks: Who Will Lead the Dividend Increase?

Description

The Big Six Canadian banks will report their fiscal fourth-quarter earnings this week. Apart from the growth numbers, this time, the big focus will be on their long-awaited dividend increases. The Office of Superintendent of Financial Institutions took back the curbs on dividend increases and share buybacks, which have been in effect since last March.

Interestingly, Canadian bank stocks have been some of the brightest spots on the street this year. The sector, on average, returned 32% in the last 12 months. Driven by dividend increases and expectations of higher Q4 earnings, there is a scope of bank stocks' valuation expansion.

Big Six Canadian banks gear up for Q4 earnings

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) will kick off the earnings season for big Canadian banks on November 30. Analysts expect a year-over-year increase of around 30% in earnings for the quarter ended October 31, 2021.

Improving mortgage demand and lower provisions for credit losses positively impacted the bank's earnings this year. The trend will likely continue in fiscal Q4 as well, which will likely unlock more value for shareholders. BNS stock has been up 25% in the last 12 months and currently yields 4.4%.

Canadian bank stocks have always been among the favourites of yield-hungry investors. Now that they are about to increase shareholder payouts, bank stocks could rally further in the short to medium term. Lower loan losses driven by faster recovery from the pandemic and robust stimulus measures helped maintain balance sheet strength at Canadian banks.

According to [Reuters](#), the Big Six Canadian banks collectively have \$49 billion in excess capital as of July 31 over the minimum regulatory requirements. So, one can expect multiple ways where shareholder value can be increased. Apart from a juicy dividend increase, banks will likely utilize the cash for acquisitions and share buybacks.

National Bank could deliver superior dividend growth

National Bank of Canada ([TSX:NA](#)), the smallest of the six main Canadian banks, will report on December 1. In the last reported quarter, the bank's profit jumped a notable 42% relative to fiscal Q3 2020. NA stock has been a significant outperformer lately, gaining 39% in the last 12 months.

According to *BNN Bloomberg*, National Bank of Canada Financial Markets analyst Gabriel Dechaine [expects](#) the highest 34% dividend hike from NA. National Bank of Canada's payout ratio averaged around 50% in the last five years. In the last 12 months, it dropped to 38%. So, NA might significantly increase shareholder payouts making way for its excess cash.

The biggest Canadian bank by [market cap](#), **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) will release its quarterly earnings on December 1. The bank reversed \$540 million in loan-loss provisions in the last quarter. The trend could be seen in the upcoming release as well, given the overall improving economic picture. RY stock has rallied 20% since last year and has underperformed peers.

More importantly, dividend growth and fancy financial growth will likely boost bank stocks. However, it will also be important to watch how bank management see the Omicron situation and how it could impact their earnings next year.

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3. TSX:BNS (Bank Of Nova Scotia)
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