Dividend Bump: Could Banks Finally Raise Payouts Soon?

Description

Investors across the board were delighted to hear about the announcement by the Office of the Superintendent of Financial Institutions (OSFI) regarding lifting the temporary restrictions placed on publicly listed financial sector companies for share buybacks and dividend hikes. Banks and other federally regulated financial institutions covered by the ban now have the go-ahead to proceed with increasing their shareholder dividends.

Many experts anticipate the possibility of a 20-25% dividend hike by Canada's top financial institutions. However, the average dividend hike might turn out to be 18% if the bank stocks stick to maintaining a 45% payout ratio, like during pre-pandemic levels.

Manulife Financial was one of the first financial institutions to jump on the opportunity by announcing an 18% dividend hike that will become payable in December 2021. Today, I will discuss two dividend stocks from Canada's Big Six banks to help you determine assets you could consider adding to your portfolio.

Dividend hikes and share buybacks

Canadian bank stocks typically maintained a 45% payout ratio during pre-pandemic times. If bank stocks stick to the limitation, raising shareholder dividends by 18% would be the most viable way for most of the top financial institutions to proceed. Additionally, the Big Six banks have ample capital to facilitate a share buyback of 2% of their shares.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are the two Canadian bank stocks most well positioned to buy back the most significant portion of shares. Such a move might prove to reduce Scotiabank stock's ability to announce a substantial dividend hike. However, it could allow the bank to maintain a higher payout ratio without having to slash its shareholder dividends.

Generous dividend yields

At writing, Scotiabank stock is trading for $84.65 per share, and CIBC stock is trading for $137.28 per share. The two bank stocks boast juicy shareholder dividend yields of 4.73% and 4.25%, respectively, at these levels. Scotiabank stock boasts a 50.35% payout ratio, while CIBC stock boasts a 44.72% payout ratio.

These dividend yields make the Scotiabank stock and CIBC stock the two bank stocks with the highest dividend yields. Income-seeking investors might also find the two income-generating assets attractive investments due to their lengthy dividend-paying track records. Scotiabank stock has paid its investors their dividends each year for the last 189 years, and CIBC stock has paid its shareholders their dividends for the last 155 years without fail.

Foolish takeaway

The Big Six Canadian banks managed to weather the worst of the pandemic well, and as the COVID-19 virus becomes an endemic, Scotiabank stock and CIBC stock continue to perform well. If you are an income-seeking investor looking for an excellent deal for reliable, blue-chip, and dividend-paying stocks for your investment portfolio, Scotiabank stock and CIBC stock could be excellent assets to consider.

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2. Investing

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
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