Big Banks' Dividend Spree: Should You Get In on it?

Description

Canadian banks are considered among the safest and most stable in the world, and it can at least partially be attributed to the banking regulator OSFI. However, the same regulators imposed a restriction on Canadian banks post-pandemic, which didn't sit too well with the investors. The banks weren't allowed to grow their payouts; hence, in 2021, most banks paid the same dividend they paid in 2020.

But the ban has finally been lifted, and Canadian banks can raise their dividends again. And you might want to buy into the banks before the next ex-dividend date, but it would be a good idea to pace yourself.

Most Canadian banking stocks rose at an incredible pace post-pandemic. While the financials rose *alongside*, ensuring the difference between a bank's intrinsic value as an investment asset is not too far behind the value it's trading at, there is still a high chance of a correction. And buying Canadian banks for their dividends would be a much smarter move if undertaken during a correction.

A 12.7% increase in the payouts

Toronto-Dominion (TSX:TD)(NYSE:TD) has announced that from the next quarter, it will grow its payouts by 10 cents. It's raising its dividend from $0.79 per share to $0.89 per share — a 12.7% increase. This is in line with the bank's dividend growth last time (five cents in one year).

TD would have been an amazing buy for capital appreciation as well if you had bought into the bank when the market crashed. You would have grown your capital by 78% by now. The valuation is slightly above the fair level. And even though its long-term growth prospects are still quite impressive, buying at its current peak might not be a smart idea.

The bank is currently offering a yield of 3.7%, which has the potential of becoming much sweeter if the bank's shares drop to or below the pre-pandemic levels, which is a possibility. Buying then would improve the long-term capital-appreciation potential of this holding as well as help you bag a much better yield.

An 11% increase in the payouts

While **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is offering the same 10-cent bump in the payouts, the percentage rise is relatively smaller compared to TD, because, in BNS's case, the dividend is going up from $0.9 a share to $1 a share. However, it's offering a much higher yield right now (4.5%), and you don't have to wait till the share price comes down to lock in a better yield.

But it most likely will, considering the fact that the bank's value barely changed three years preceding the 2020 crash, and now it's trading at a 17% premium to its pre-pandemic price. And if it falls down hard in a correction, you may be able to score a sweet 5% (or higher) yield.

The long-term capital-appreciation potential of the bank (if you are planning on holding it for decades) is modest but sustainable.

Foolish takeaway

Canadian banks are among some of the most trusted dividend stocks in TSX, and the reliability of their dividend growth is an amazing reason to buy them for a passive income. The consistent and reasonable dividend raises would ensure that your dividend-based passive income is keeping up with (or surpassing) inflation.

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