2 Bank Stocks With Unbelievable Dividends to Buy

Description

Canadian banks have some of the longest dividend histories in the country, with a few of them paying dividends for well over a century. This consistency and reliability have established them as the premier dividend stocks, especially when it comes to sustainability. And the fact that the Big Six are all Dividend Aristocrats further endorses their credibility as dividend stocks.

But reliability alone is not enough to make dividend stocks attractive. Investors look for dividends that are not just certain (for the long term) but also adequately sizeable. A yield that has to struggle to compete with bank interest rates, no matter how reliable it is, is not enough to move the needle in favour of a dividend stock (unless it comes with considerable capital-appreciation potential).

Then there is also the matter of dividend growth. There are many Dividend Aristocrats that grow their payouts at a very strained rate. However, the two banking stocks **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) are not among them. They offer strong, sustainable, and sizeable dividends with promising growth potential.

The most expensive banking stock

CIBC is currently trading at about $149 per share, making it the most expensive banking stock right now as far as the price tag is concerned. That's quite far from the bank's usual price range between $100 and $120 and is about 33% higher than its pre-pandemic share price. From a valuation perspective, the stock is quite an attractive buy (with a price-to-earnings multiple of 10.5).

But despite the epic 100% growth since the market crash, the stock is still offering a decent 4.3% yield, and that's thanks to the proposed rise in payouts. The bank was paying its investors $1.46 per share, and from the first quarter of 2021, the dividends would be about $1.61 per share. That $0.15 bump is in line with the bank's pre-pandemic dividend growth.

The second-priciest banking stock

With a price tag of about $136 per share, Bank of Montreal is currently the second-priciest stock in the sector. It experienced an even more accelerated post-pandemic growth, and the stock has risen about 118% since the market crash. It's not as attractively valued as CIBC, and neither is it offers a higher yield, but its 3.9% with a payout ratio of 36.6% makes it an amazing dividend stock, nevertheless.

The bank is also proposing an uncharacteristically high dividend raise from the next quarter. It's raising its payouts from $1.06 per share in 2020 to $1.33 per share, which is significantly more than its pre-pandemic growth, which used to be under 10 cents. The 25% dividend growth is unbelievably generous.

Foolish takeaway

The two banking dividend stocks are both amazing investments for their dividend raises. While CIBC offers a better yield, BMO offers much more generous dividend growth. However, you may consider waiting for the correction to knock the two banking stocks down to a better combination of price and yield.

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