These 2 Canadian Banks Just Raised Their Dividends

Description

Canadian big banks capped fiscal 2021 with a dividend bonanza after a drought of payout increases and share buybacks in 2020 due to a prohibition by the banking regulator. The lenders amassed $40 billion in excess common equity tier-one (CET1) ratios from bloated but unused provisions for credit losses (PCLs).

Bank of Montreal (TSX:BMO) and **National Bank of Canada** (TSX:NA), two of the Big Six, rewarded investors with 25% and 23% dividend hikes.

Fiscal 2022 (12 months ended October 31, 2022) is over, and the rate-hike cycles to curb inflation negatively impacted bank stocks. However, BMO and NA didn't hold back on dividend hikes, despite a possible recession in 2023.

Dividend pioneer

BMO isn't only the oldest Canadian bank but also the TSX's dividend pioneer. This $82.18 billion bank may be considered the most investor-friendly stock because of its dividend track record of 193 years. The current share is $120.63 (-7.75% year to date), while the dividend yield is 4.74%.

While PCLs in fiscal 2022 increased 1,465% to $313 million versus fiscal 2021, the net income rose 75% year over year to $13.53 billion. Also, the total revenue of $33.71 billion is 24% higher than a year ago. At the close of Q4 fiscal 2022, management said the board approved an 8% dividend increase from the prior year.

Darryl White, chief executive officer (CEO) of BMO Financial Group, credits the very good revenue performance to robust, high-quality loans & deposits growth and expanding net interest margins. BMO expects to accelerate its growth in U.S. markets significantly when it closes the transaction to acquire the Bank of the West in the first calendar quarter of 2023.

BMO will expand its footprint to 32 states and gain entry into new growth markets, including an immediate scale in the lucrative California market. Market analysts covering this big bank stock have a

12-month average price target of $145.15 (+20%).

Sixth-largest bank

NA, Canada's sixth-largest bank, saw its net income in Q4 fiscal 2022 drop 4% to $738 million versus Q4 fiscal 2021. Management had to raise its PCLs by 112% to $87 million during the quarter to reflect a less-favourable macroeconomic outlook for next year. But despite lower profits, the $31.11 billion bank announced a 5% dividend hike.

However, NA's net income increased 8% year over year for the full fiscal year to $3.38 billion. Its president and CEO Laurent Ferreira said, “We generated superior organic growth across all our business segments, and the operating leverage was positive for the year.”

In Q4 fiscal 2022, the net income of the U.S. Specialty Finance and International versus the same quarter in fiscal 2021 grew by only 2% to $132 million. John Aiken, a senior analyst and head researcher at Barclays Bank, noted the strong quarterly earnings of retail operations. However, the stock could underperform in fiscal 2023 if capital markets and other segments won't deliver.

If you invest today, NA trades at $92.40 per share (-1.23% year to date) and pays an attractive 4.17% dividend.

Investors are top of mind

Canada's banking sector is known globally as a bedrock of stability. The dividend hikes of BMO and NA, notwithstanding an inevitable recession in 2023, show genuine concern for loyal investors.

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