



## National Bank of Canada vs. Bank of Montreal: Which Should You Own?

### Description

Over the last century and a half, Canada's banks have been pretty great investments.

There have been some lean years for sure, like 2008-09 when each bank was down more than 50% from its peak. Each has also suffered when housing corrected in a major way — like in the early '90s in the Toronto area and in the early '80s in Alberta. And finally, they've all had their own individual bumps along the way, doing silly things like lending money to **Enron** or being too aggressive with fancy derivatives.

But for the most part, the banks just keep on ticking. Over the long haul, they're terrific businesses to own. Most investors have at least one in their portfolio, and many choose to own several.

But what one should you buy today? Let's take a closer look at two of the smaller Canadian banks, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **National Bank of Canada** ([TSX:NA](#)), to see if we can figure out which one is the better value.

### Reach

National Bank is almost completely dependent on Canada for its revenue, while Bank of Montreal has a significant presence in the U.S.

Bank of Montreal has been in the U.S. for a long time, first acquiring Chicago-based Harris Bank in 1994. By 2010, when it announced the acquisition of Marshall & Ilsley, the company had grown to nearly 700 branches in the U.S., which is now a little less than half of its total branches. In a market where Canada appears to be weakening and the U.S. looks to be getting stronger, it's a good thing that Bank of Montreal has so much U.S. exposure.

Meanwhile, National Bank is almost wholly Canadian in its focus, and is strongly associated with just one province — Quebec. While it's good to be a dominant player in a certain market, there's certainly a risk of being tied too closely to one area, especially if Quebec's economy sputters.

Additionally, National is much smaller than Bank of Montreal. While Bank of Montreal has more than

1,500 branches throughout North America, National Bank only has 452 branches. National doesn't even have as many bank machines (952) as Bank of Montreal. The definite advantage here goes to Bank of Montreal.

## Valuation

When comparing both of these banks to the overall market, both jump out as being pretty cheap.

National Bank trades at a P/E ratio of just 10.5x, making it not only one of the cheapest financials on the market, but also putting it in the bottom quarter of the cheapest stocks overall. Bank of Montreal isn't much more expensive, it trades at 11.9x earnings. Both banks get a little cheaper when you look at forward P/E ratios, with National trading at just 9x and Bank of Montreal trading at 10.3x. Additionally, both stocks are down 15-20% from recent highs.

The reason why both stocks are so cheap is relatively simple. Investors are betting that the decline in oil will hurt the banks in a couple of ways. One, it will likely cause weakness in Alberta's housing market, which could spread to other parts of the country. And two, both banks have exposure to the energy sector via their capital markets divisions.

## Dividends

Both companies have decades of history paying slowly increasing dividends, and both companies have an attractive current payout.

National Bank of Canada currently yields 4.4%, and investors have enjoyed a 10% annual raise in dividends over the past handful of years. The company's current payout ratio is 46%.

Bank of Montreal has a slightly worse dividend, currently yielding 4.2%. Bank of Montreal has not kept up with National's dividend increases, only raising its quarterly payout by a little more than 2% annually since 2010. It has a current payout ratio of 50%.

Based on its lower valuation and slightly better dividend and dividend growth, I'd choose National Bank over Bank of Montreal. The latter's U.S. exposure just isn't enough to convince me to choose it.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:NA (National Bank of Canada)

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