Which Is Better for Dividend Investors? Royal Bank of Canada vs. Bank of Montreal

Description

In a world of uncertainty, there's one industry investors can always turn to.

Canada's big banks.

Bank stocks have long been core holdings in investors' portfolios for good reason. These companies are storied financial institutions, crank out steady profits, and have long track records of paying out dividends.

That's why it can be tough to choose between these firms. Today, we're tackling two of the most popular—the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and the **Bank of Montreal** (TSX:BMO)(NYSE:BMO).

Which stock is a better bet for income investors? Let's see how the two companies stack up on a range of measures.

1. Yield: Both of these stocks are admired by income investors for their big payouts. However, BMO sports the highest yield of its peers because it delivers a current yield of 4.2%. So, if you're looking for income today, this stock is your first choice. *Winner: BMO*

2. Dividend growth: Of course, yield isn't the only metric we want to consider. Dividend growth is also important. We need to ensure our income stream can keep up with (and ideally beat) inflation. While BMO's current yield is impressive, the firm has only increased its dividend by 6.2% per year over the past decade. Royal, by comparison, hiked its payout at an impressive 10.7% annual clip during the same period. *Winner: Royal*

3. Earnings growth: Future dividend hikes will depend mostly upon growing profits. And while the big banks are mature businesses, they're still expected to crank out reasonable growth over the next few years. BMO, in particular, is well positioned in the fast growing U.S. market. Analysts project the company's earnings per share will grow 7.7% annually over the next five years. Royal is just off that pace, with profits expected to increase 7.4% over the same time. *Winner: BMO*

4. Dividend history: Of course, reliability is perhaps the most important thing for investors to consider. We don't want to see our income stream suddenly dry up without warning. That said, both of these banks are some of the most reliable dividend payers around. BMO and Royal have paid distributions to shareholders every year since 1829 and 1870 respectively. *Winner: BMO*

5. Safety: Even better, Canada's financial institutions are remarkably safe. Every year, *Bloomberg Markets Magazine* ranks the world's banks based on factors like reserves and loan quality. In the publication's most recent survey, Royal was ranked as the sixth-soundest bank in the world.
Winner: Royal

6. Valuation: As worries about a slowing economy weighs on equities, bank stocks have sold off hard. Today, Royal and BMO trade at 11.2 times and 10.7 times forward earnings respectively.
That's slightly below their historical averages, though in line with peers. *Winner: BMO*

And the results are in…

No one has ever been fired for buying Canadian banks. That's why you really can't go wrong owning either one of these stocks. Both deserve a place in any income portfolio.

That said, BMO has the slight edge in my books, given its bigger yield, faster growth, and cheaper valuation. If you can only own one bank, this is the stock to hold.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BMO (Bank Of Montreal)
4. TSX:RY (Royal Bank of Canada)

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Date
2025/07/03
Date Created
2015/03/17
Author
rbaillieul