Which Stock Is the Best Bet for Dividends: Bank of Montreal vs. Toronto-Dominion Bank?

Description

Scan the top holdings of dividend funds across the country and these two names come up over and over: the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and the **Bank of Montreal** (TSX:BMO)(NYSE:BMO).

These two firms are core positions for income investors and it's easy to see why. Both sport high yields. Both have long track records of paying dividends. And unless Canadians start paying for goods through barter, both of these companies will likely be cranking out oversized profits for decades to come.

But for those of us with limited funds to invest, choosing between these two dividend champions isn't easy. So today, we're investigating an important question: Which banking giant is a better bet for income? Let's see how these two stocks stack up on a range of measures.

1. Dividend yield. No contest here. BMO yields 4.1%, which is half a percentage point more than TD's 3.6% payout. So, if you're looking for current income, BMO is your best bet. *Winner: BMO*

2. Dividend history. Of course, investing isn't as easy as picking out the highest yield. We have to dig a little deeper than that to judge a dividend's quality. Thankfully, both companies have some of the longest histories of paying dividends in North America. BMO and TD have mailed a cheque to shareholders every year since 1829 and 1857, respectively. *Winner: BMO*

3. Dividend safety: Safety is another key consideration. As income investors, our worst case scenario is waking up one morning to find our distribution has been cut. Fortunately, TD and BMO both have conservative dividend policies, and pay out approximately half of their earnings to shareholders. This gives them plenty of wiggle room if business sours. *Winner: Draw*

4. Dividend growth: Dividend growth is just as important as the current payout itself. After all, we want to ensure our income stream can keep up with rising prices. BMO has increased its distribution at a modest 6% per year over the past decade, more than enough to beat inflation. TD, however, has done even better. The cross-town rival has hiked its dividend at a 10% annual clip over the past 10 years. *Winner: TD*

5. Earnings growth: Of course, future dividend hikes only come from growing profits. While the banking industry is a mature business, both TD and BMO are still finding new expansion opportunities. Based on analyst estimates compiled by *Reuters*, BMO and TD are projected to grow earnings per share by 8% and 10%, respectively, over the next five years. *Winner: TD*

6. Valuation: Finally, how much we pay for an asset is the most important determiner of our returns. No matter how good a business's prospects might be, you never want to overpay for any security. Thankfully, Canadian banks are reasonably priced. BMO and TD currently trade at 11 and 12 times forward earnings respectively, which is in line with peers, though below their historical averages. *Winner: BMO*

And the results are in…

As I said, TD and BMO are both excellent banks. You really couldn't go wrong by adding either one of these to your portfolio. That said, I lean slightly towards BMO for its bigger yield, longer track record, and cheaper valuation.

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