



Bank of Nova Scotia vs. Bank of Montreal: Which Is the Better Buy?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) are Canada's third- and fourth-largest banks, respectively, and both of their stocks represent attractive long-term investment opportunities today.

However, in order to keep our portfolios diversified, we must only invest in one, so let's compare the companies' earnings results in the first half of fiscal 2016, their stocks' valuations, and their dividends to determine which is the better buy right now.

Bank of Nova Scotia

Bank of Nova Scotia is Canada's third-largest bank, and its stock has risen over 15% year-to-date, including a relatively flat performance since it released its earnings results for its three- and six-month periods ended on April 30, 2016, on the morning of May 31. Here's a summary of 10 of the most notable statistics from the first half of fiscal 2016 compared with the first half of fiscal 2015:

1. Adjusted net income increased 4.3% to \$3.68 billion
2. Adjusted earnings per share increased 4.3% to \$2.89
3. Total revenue on a taxable equivalent basis increased 9.6% to \$13.16 billion
4. Net interest income increased 10.5% to \$7.04 billion
5. Non-interest income increased 8.6% to \$6.12 billion
6. Total assets increased 6.9% to \$894.96 billion
7. Deposits increased 5.9% to \$609.31 billion
8. Loans increased 7.1% to \$466.85 billion
9. Common shareholders' equity increased 4.8% to \$48.95 billion
10. Book value per common share increased 5.4% to \$40.70

At today's levels, Bank of Nova Scotia's stock trades at 11.1 times fiscal 2016's estimated earnings per share of \$5.83 and 10.4 times fiscal 2017's estimated earnings per share of \$6.20, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.5 and the industry average multiple of 13.3. It also trades at 1.59 times its book value per share of \$40.70, which is

inexpensive compared with its five-year average market-to-book value of 1.84.

Additionally, the company pays a quarterly dividend of \$0.72 per share, or \$2.88 per share annually, which gives its stock a yield of about 4.5%. It's also important to note that its three dividend hikes since the start of 2015, including its 2.9% hike in March of this year, have it on pace for 2016 to mark the sixth consecutive year in which it has raised its annual dividend payment.

Bank of Montreal

Bank of Montreal is Canada's fourth-largest bank, and its stock has risen over 4% year-to-date, including a decline of over 1% since it released its earnings results for its three- and six-month periods ended on April 30, 2016, on the morning of May 25. Here's a summary of 10 of the most notable statistics from the first half of fiscal 2016 compared with the first half of fiscal 2015:

1. Adjusted net earnings increased 6.5% to \$2.33 billion
2. Adjusted earnings per share increased 7.4% to \$3.48
3. Total revenue increased 6.2% to \$10.18 billion
4. Net interest income increased 16% to \$4.9 billion
5. Non-interest income decreased 1.5% to \$5.28 billion
6. Total assets increased 7.6% to \$681.46 billion
7. Deposits increased 4.8% to \$444.79 billion
8. Loans and acceptances increased 12% to \$353.78 billion
9. Common shareholders' equity increased 7.5% to \$35.76 billion
10. Book value per share increased 7.6% to \$55.57

At today's levels, Bank of Montreal's stock trades at 11.5 times fiscal 2016's estimated earnings per share of \$7.10 and 11 times fiscal 2017's estimated earnings per share of \$7.44, both of which are inexpensive compared with the industry average price-to-earnings multiple of 13.3, and the latter of which is inexpensive compared with its five-year average multiple of 11.5. It also trades at 1.47 times its book value per share of \$55.57, which is inexpensive compared with its five-year average market-to-book value of 1.51.

Additionally, the company pays a quarterly dividend of \$0.86 per share, or \$3.44 per share annually, which gives its stock a yield of about 4.2%. It's also important to note that its four dividend hikes since the start of 2015, including its 2.4% hike last month, have it on pace for 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment.

Which bank is the better buy right now?

Here's how each company ranks when comparing their earnings results in the first half of fiscal 2016, their stocks' valuations, and their dividends:

Metric	Bank of Nova Scotia	Bank of Montreal
Earnings Strength	1	1
Forward P/E	1	2
Valuation – 2016		

Forward P/E	1	2
Valuation – 2017		
Market-to-Book	2	1
Value		
Dividend Yield	1	2
Annual		
Dividend Increase	1	2
Streak		
Average Ranking	1.17	1.67

As the chart above depicts, both companies reported strong earnings results in the first half of fiscal 2016, and Bank of Montreal's stock trades at a more attractive market-to-book value, but Bank of Nova Scotia's stock trades at more attractive forward price-to-earnings valuations, has a higher dividend yield, and has a longer active streak of annual dividend increases, giving it the win in this match-up.

With all of this being said, I think both stocks represent fantastic long-term investment opportunities, so Foolish investors should strongly consider beginning to scale in to positions in one of them today.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BMO (Bank Of Montreal)
4. TSX:BNS (Bank Of Nova Scotia)

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