

Race to \$100: Bank of Montreal vs. Royal Bank of Canada

Description

Shares of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) closed at \$95.93 on September 28 — up 0.51%. This represented a five-month high for the stock. RBC stock is now up 4% since releasing its third-quarter results on August 23.

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) stock increased 0.51% on September 28 to close at \$93.97. Shares of BMO dropped below the \$90 mark, the first time in 2017, after releasing its third-quarter results and failing to hold its dividend steady.

The year began with Canadian banks soaring to all-time highs, sparked by the so-called Trump Trade, which was driven by enthusiasm for the proposed pro-growth agenda of the new administration. Shares of BMO reached an all-time high of \$104.15 in early March. RBC stock also saw all-time highs peaking just below triple digits at \$99.90 in late February. Now, with both banks gathering momentum in September, which will be the first to hit triple digits in the future?

Bank of Montreal limped through bank earnings season in spite of beating expectations. In its third-quarter results, it posted an increase in net income of 11% to \$1.4 billion from Q3 2016. However, the news that drove investor sentiment was that BMO would hold its dividend at \$0.90 per share, representing a 3.8% dividend yield at offering.

BMO saw the strongest growth in its wealth management and retail banking sectors, up 32% and 9%, respectively. The incremental interest rate hikes should help lending margins, but new mortgage loan growth is expected to slow with new regulations forthcoming.

Royal Bank reported net income of \$2.8 billion in the third quarter; excluding an after-tax gain from a sale of insurance business in the previous year, it represented an increase of 5% over Q3 2016. Wealth management and insurance experienced growth of 25% and 56%, respectively. RBC also hiked its dividend by 5% to \$0.91 per share with a dividend yield of 3.79% at offering.

In an interview on September 28, an RBC executive revealed that the bank was experimenting with blockchain for payments between U.S. and Canadian banks. The bank has been developing the system for a significant part of 2017, and when fully realized, it will be able to reduce the speed of payments and lower operational costs. RBC joins several major Canadian and U.S. banks who are embracing the technology.

Which stock will be the first to crack triple digits?

Even after what was essentially a solid earnings report for Bank of Montreal, some pessimism is warranted after standing pat on its dividend. I still like its long-term outlook, and the yield is attractive.

However, I am betting on Royal Bank stock in this race. Along with a good earnings beat in the third quarter, RBC has also established itself as a technological leader among the biggest Canadian banks. It ranked number one in a July J.D. Power digital customer satisfaction survey, and it is a favourite

bank for millennials. The stock has soared in September, and economic tailwinds could push it to triple digits before 2018.

CATEGORY

1. Bank Stocks
2. Investing

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)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/08/22

Date Created

2017/10/03

Author

aocallaghan

default watermark

default watermark