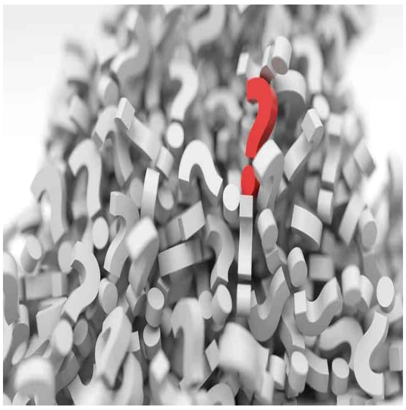

Bank of Montreal vs. Toronto-Dominion Bank: Which Is a Better Buy?

Description

Canada's major banks just finished their first-quarter earnings season and thankfully, there's little that should disappoint long-term investors. Still, some bank stocks are underperforming compared to their peers.

Let's look at Bank of Montreal (TSX:BMO)(NYSE:BMO) and Toronto-Dominion Bank (TSX:TD)(NYSE:TD) to see which one is a better buy today.

Bank of Montreal

BMO stock is down more than 4% this year as investors remained on the sidelines despite the lender's better-than-expected first-quarter earnings and a massive share buyback plan.

One of the biggest drags on the BMO share has been the lender's slowing growth from its U.S. operations. However, the first-quarter earnings show that the lender is doing just fine on this key metric.

BMO has a diversified franchise with a solid presence in commercial, retail banking, wealth management, and capital markets. The company also maintains a strong foothold in the U.S. with more than 500 branches, mainly in the U.S. Midwest.

"BMO had a good start to the year," said Chief Executive Officer Darryl White. "The constructive economic environment, particularly in the U.S., plays to the strengths of our business mix, with another quarter of increased contribution from our U.S. segment, which grew at a higher rate than the bank overall."

BMO reported earnings per share, excluding one-off items of $2.12 per share. Analysts predicted average forecast earnings of $2.06 per share, according to Thomson Reuters estimate.

Growing profit from the bank's U.S. operations contributed about a quarter of total earnings in 2017. In the first quarter, higher revenue from the U.S. personal and commercial banking helped push profits 24% higher for the unit to $310 million.

TD Bank

The shares of TD Bank, on the other hand, have barely changed this year even after the lender's better-than-expected first-quarter earnings, helped by a strong performance both locally and internationally.

Removing the impact of a $405 million charge related to U.S. tax reform and other items, TD had $2.946 billion, or $1.56 per share, in adjusted diluted earnings per share.

That was up 15% from a year earlier and above the analysts' estimates of $1.46 per share of adjusted earnings, according to Thomson Reuters.

Chief Executive Officer Bharat Masrani said the operating environment "remained favourable" in the U.S. and Canada, and that the nation's second-largest bank is on track to exceed its target of 7-10% earnings growth this year.

"While there are risks on the horizon, if these positive conditions persist, adjusted earnings growth for the full year may exceed our medium-term target," he said in a statement.

Which bank is a better buy?

If you're a long-term income investor, both banks offer solid opportunities to grow your capital and earn stable dividend income. When it comes to investing in Canadian bank stocks, one rule of thumb is that you pick the laggard and benefit from a potential capital appreciation.

History suggests that shares of Canadian lenders catch up fast. In this case, BMO's 3.8% dividend yield and its plan to buy back 20 million shares make it an attractive option when compared to TD stock.

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