Better Buy in March: Bank of Montreal or Canadian Imperial Bank of Commerce?

Description

The United States Tax Cuts and Jobs Act was signed into law by President Donald Trump on December 22, 2017. By far, the most touted revision was the slashing of corporate taxes from 35% to 21%, which was designed to spur growth going forward. Early projections estimated that the tax-reform bill could result in $6 trillion in additional revenues over the next decade.

What has followed in 2018 has been the largest frequency of stock buybacks on record at this stage of the year. Companies are moving quickly to maximize shareholder value, and Canadian companies with U.S. footprints have joined in on the action. On March 14, the U.S. Senate also passed a bill to loosen financial regulations and roll back some key banking rules in an effort to spur growth.

Today, we are going to look at two Canadian banks that received a significant boost from U.S. business in the most recent earnings season. Which bank should you add today?

Bank of Montreal (TSX:BMO)(NYSE:BMO)

BMO stock has dropped 1.98% in 2018 as of close on March 15. The bank boasts the second-largest U.S. footprint when measured as a proportion of its total revenue. BMO released its first-quarter results on February 27.

BMO reported an earnings beat, as its profit climbed to $1.42 billion, or $2.12 per share. Adjusted income in its U.S. personal and commercial banking segment increased 30% year over year to $256 million. Its U.S. business saw a boost due to tax reform as well as higher overall revenues. The bank also reported a lower provision for credit losses that was offset by higher expenses. Its reported net income included a one-time cash charge of $425 million due to the revaluation of its U.S. net deferred tax asset.

The bank also declared a quarterly dividend of $0.93 per share, representing a 3.6% dividend yield.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC stock has declined 3.9% in 2018 thus far. The stock has been mostly flat year over year — down

0.13%. CIBC released its first-quarter results on February 22.

CIBC posted adjusted net income of $1.43 billion compared to $1.16 billion in Q1 2017. It also reported a one-time charge of $88 million due to U.S. tax reform. However, like BMO, its U.S. business segment surged in the first quarter. Net income in U.S. commercial banking and wealth management soared 362% to $134 million in the first quarter. Its $5 billion PrivateBancorp purchase, which was changed to CIBC Bank USA, powered its U.S. numbers. CIBC reported that domestic mortgage growth was slowing, so it will be relying on its strong U.S. business in 2018, as Canadian home sales are steeply slipping year over year.

CIBC also hiked its dividend to $1.33 per share, representing a 4.3% dividend yield.

Which stock should you buy?

Shares of BMO and CIBC have been relatively flat year over year. In this article, we have focused on the potential the U.S. holds for Canadian institutions with a U.S. footprint. BMO, which boasts the larger footprint, is my pick to add in March.

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