BMO vs. Toronto-Dominion Bank: Which Dividend Stock Is a Better Buy Today?

Description

Canadian banking stocks hold great appeal for investors seeking steady dividend income. The top five lenders in the country operate in an oligopoly, making it almost impossible for new entrants to challenge their market shares.

This unique operating environment makes Canadian banks a very safe and solid long-term investment when compared to their American cousins. The Canadian banking system is concentrated in the big five banks, which account for more than 80% of total banking assets.

These banks are massive financial institutions and attract a lot of institutional as well as retail investor interest. On average, banks distribute between 40% and 50% of their net income in dividends and grow them regularly.

To help investors choose the best near-term growth prospects among the big five banks, let's have a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal** (TSX:BM)(NYSE:BMO) to see which of these top lenders provides a better value for your buck in today's market.

BMO

BMO stock has been underperforming Canada's top lenders for more than a year now, mainly on concerns that it's been slow to produce growth from its U.S. operations. BMO has been near the bottom among the biggest Canadian banks over the past eight years based on return on equity.

Its price-to-earnings ratio is the second lowest among the top lenders, exceeding only its smaller rival, **Canadian Imperial Bank of Commerce**. It also has higher costs relative to revenue, meaning that it's less efficient than its competitors.

However, the first-quarter earnings report suggests that BMO is probably turning the corner when it comes to growth from south of the border.

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. Trading at $96.25, BMO is the longest-running dividend-paying company in Canada. It offers an annual dividend yield of 3.86%, which is slightly higher than TD Bank at today's prices.

TD Bank

For dividend investors, TD Bank has been a great pick. During the past five years, its stock has produced returns that were four times higher than the broader market and 25% higher than what BMO delivered.

This strength comes from TD's diversified business operations, thanks to its aggressive growth in the U.S. The bank now runs more branches in the U.S. than in Canada, making it one of the top 10 lenders in the U.S.

In the first-quarter earnings release, TD made record profits of $952 million from its U.S. retail business — a jump of 19% from a year earlier. Earnings will get a further boost from President Trump's tax relief, adding about $300 million to the bottom line this year.

When it comes to returning cash to investors, TD has grown its dividend payout about 11% on annualized basis over the past two decades. Trading at $76.03 with an annual dividend yield of 3.52%, TD stock is fairly priced with good growth potential.

Which one is a better buy?

It's tough for other banks to beat TD due its strong franchise both in Canada and abroad. But BMO is offering a slightly better value after its 4% slide so far this year. Still, I would prefer TD Bank over any other lender to play the strength of Canadian banking system.

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hanwar