

TFSA Investors: Toronto-Dominion Bank or Bank of Montreal for U.S. Exposure?

Description

Canadian TFSA investors are looking for ways to get U.S. exposure through Canadian [dividend stocks](#), and two of the country's top banks can meet that objective.

Let's take a look at **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) to see if one is a better pick right now.

TD

TD is primarily known for its Canadian operations, but the bank has invested heavily in its efforts to build a large U.S. presence. In fact, TD operates more branches south of the border than it does in its home country.

The Canadian operations are still the bread-and-butter of TD's profit stream, but the U.S. group is a significant part of the business. The U.S. retail operations along with TD's part of TD Ameritrade contribute more than 30% of the company's net income.

This provides a nice hedge against any downturn in Canada. When the U.S. dollar rises against the loonie, investors can get a nice boost to the bottom line.

In 2017, U.S. retail earnings grew 12% year-over-year compared to 9% growth in the Canadian retail segment. The company now has the scale it needs to compete in the United States. It's primarily focused on organic growth at this point, but is willing to make tuck-in acquisitions south of the border, as it did in 2016 with the purchase of broker-dealer Albert Fried & Co.

TD has a strong track record of dividend growth, which should continue in step with targeted earnings-per-share growth of 7-10% per year. TD tends to be conservative with its earnings outlook.

The stock has pulled back in the past month, and now offers a 3.8% [yield](#). TD currently trades at 13 times trailing earnings.

BMO

Bank of Montreal's presence in the United States dates back to the early 1980s, when the bank acquired Harris Bank. That deal set off a string of deals over the years that slowly built the company's U.S. operations, primarily located in the U.S. Midwest. The trend has continued in the wake of the financial crisis, including the 2011 purchase of Milwaukee-based Marshall and Ilsley for US\$4.1 billion. The most recent addition to the U.S. operations was the 2015 purchase of GE Capital's Transportation Finance business.

BMO reported strong overall numbers in fiscal 2017, with adjusted net income rising 10%, compared to 2016. The U.S. group contributed \$1.1 billion, or 20% of the company's \$5.5 billion, in adjusted net income last year, but underperformed the Canadian business, delivering flat results on a U.S.-dollar

basis.

Bank of Montreal has paid a dividend every year since 1829. The current distribution provides a yield of 3.9%.

The stock has pulled back amid the broader correction in the market, but still trades at 13.5 times trailing 12-month earnings.

Is one a better bet?

At this point I would probably make TD the first choice to get U.S. exposure in your TFSA. The company gets a larger percentage of its profits from the U.S. operations, and currently trades at a discount to its smaller peer.

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