Better Dividend Stock: Bank of Nova Scotia (TSX:BNS) or Bank of Montreal (TSX:BMO)?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) are two of the biggest players in Canadian banking. Despite posting financial results in line with analysts' estimates, however, both companies' shares have plummeted in recent weeks, as has much of the stock market. Fortunately, investors can count on dividend payouts to help them get through these tough times. But which of the two is the better dividend stock?

Bank of Nova Scotia

BNS (also known as Scotiabank) is one of Canada's most international banks. The company generates half of its revenue domestically, with less than 10% coming from the U.S. and around 40% from other regions. After having made a series of recent acquisitions in Latin America, BNS is currently selling operations in various countries throughout the Caribbean to strengthen its strategy abroad.

While some believe BNS's limited presence in the U.S. puts the company at a disadvantage, its international earnings soared by 22% in the fourth quarter.

BNS has consistently paid and raised its dividends in recent years. The company's current dividend yield (4.73%) and annual dividend per share ($2.57) are both higher than the averages for its industry.

BNS has a payout ratio of 47%, which means it generates enough earnings to cover its dividend payments. The bank has managed to consistently keep its payout ratio below 50%, despite dividend increases, which is a good sign. This trend is indicative of BNS's ability to sustain its dividends.

BNS's share value has seen significant price volatility over the past few months. The company's fourth-quarter earnings, though, were relatively strong, with year-over-year increases in revenue, net income, and earnings per share.

BNS has underperformed compared to both the banking industry and the Canadian market, however, and despite projected growth of around 14% over the next two years, this growth rate is lower than that of many of BNS's competitors.

Bank of Montreal

BMO derives most of its profit from North America, pulling more than 70% of its revenue from its Canadian operations. Within the commercial banking business, which is one of the most important sources of revenue for most large banks, BMO ranks second domestically in terms of loans. BMO is also one of the biggest players among the top six Canadian banks within the asset management sector.

BMO's fourth-quarter results were very encouraging. The company's net income increased by 38% year over year, while its adjusted earnings per share and return on equity increased by 19% and 4%, respectively. The company's efforts to grow its U.S. market seem to be paying off, with a 38% increase in revenue. BMO's financial performance is overall slightly better than last year's, and the company has outperformed the Canadian market and the banking industry.

Over the past few years, BMO has been consistently raising its dividend, including an 8% increase this year. BMO's current dividend-payout ratio is a healthy 46% with a five-year average of 48%. BMO's dividend yield (5.80%) and annual dividend per share ($3.02) are also above average for the banking industry. Looking to the future, analysts expect BMO's earnings to grow by 16% over the next two years.

Bottom line

While both companies have a history of paying and raising their dividends and seem capable of sustaining dividend increases, BMO currently offers the higher dividend yield, higher annual dividend per share, and better growth prospects. BMO has also outperformed BNS recently. Therefore, at this stage, I would give the edge to BMO.

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Date
2025/08/28
Date Created
2018/12/14
Author
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