Bank of Montreal (TSX:BMO) Is Canada's Best Bank Stock

Description

Well, that was unusual. As of writing, all of Canada's Big Five banks have reported first-quarter earnings, albeit the results weren't anything to get excited about. In fact, I dare say that the first quarter was a disappointment across the board. Four of the five either missed on earnings, revenue or both, with **Royal Bank of Canada** (TSX:RY)(NYSE:RY) being the exception. Royal Bank met earnings estimates and beat on revenue.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) missed on earnings, but beat on revenue and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) achieved the opposite. Unfortunately for **Bank of Nova Scotia** (TSX:BNS)(NYSE:CM) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) shareholders, both missed on the top and bottom lines. This may also mean that these two banks could continue to underperform the group as they have over the past few years.

Which bank had the best quarter?

Looking beyond the headlines, I am giving the edge to the Bank of Montreal. For starters, it is important to take its revenue miss into perspective. Revenue of $5.59 billion missed by $20 million, or a mere 0.3%. In my opinion, the miss is insignificant as revenue still climbed 6% year-over-year.

Second, Bank of Montreal was the only bank to post double-digit (10%) earnings per share (EPS) growth. Royal Bank was a close second at 7%, while the remainder either posted low single-digit or negative earnings growth. Thanks to its outperformance, it is the only one who didn't post negative return on equity growth as compared to the first quarter of 2018. Further, the bank was one of the few whose provisions for credit losses actually dropped year over year.

The bank's strong quarter was led by its U.S. personal and commercial (P&C) banking business. Adjusted segment net income grew by 42% over the last year's first quarter. As was the case with all banks, the company's weakest segments were its Capital Markets (-9.9%) and Wealth Management (-3.3%) segments. This is not surprising given the poor performance of the equity markets this past fall.

Which bank had the worst quarter?

This is a toss-up between the Bank of Nova Scotia and CIBC. Negative growth was prevalent in both reports. Bank of Nova Scotia saw adjusted EPS drop 6.4% and ROE drop by 270 basis points. Similarly, Canadian Imperial's adjusted EPS dropped by 5% and its ROE dropped for 18.8% to 16% (280 basis points).

Both companies also saw a significant increase in credit losses. CIBC's Q1 provision for credit losses (PCL) jumped by 120% to $338 million from $153 million. It had a higher rate of imparted loans in its Canadian Commercial Banking, Wealth Management and Capital Markets segments. The Bank of Nova Scotia saw PCL climb 26% to $688 million, the majority of which came from its Canadian Banking and International Banking segments.

Foolish takeaway

Although one quarter does not make a trend, there was weakness across the entire sector. However, I am still bullish on the sector as we have seen more stability in the markets, which should lead to an industry-wide rebound in the Capital Markets and Wealth Management segments next quarter.

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