Which of These 2 Bank Stocks Should You Trust After Q1 Earnings?

Description

Financials were a drag on the **S&P/TSX Composite Index** on the final trading day of February. Earnings were released as several major banks on February 28, and the challenging economic environment took a toll in the first quarter. In February I'd warned investors that the TSX Index looked overheated.

Today we'll look at two banks that released first-quarter earnings this week. Which is the better bet moving forward as we enter the month of March? Let's dive in.

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

BMO stock fell 0.31% on February 28. Shares have climbed 15% in 2019 so far. The stock is up 5.3% year over year.

BMO released its first-quarter earnings on February 26. The bank reported adjusted net income of $1.53 billion, up 8% from Q1 2018. BMO received a huge boost from its United States Personal and Commercial Banking segment. In a January article I'd discussed how the sugar rush from U.S. tax reform was set to wear off this year. However, you could not tell from this quarter.

U.S. Personal and Commercial Banking posted adjusted net income of $454 million, up 42% from the previous year. The bank achieved this on the back of strong revenue growth and a full quarter benefit of the U.S. tax reform package, which means that future quarters may bring more tepid gains with U.S. tax reform fully baked in.

BMO's remaining segments posted marginal gains and losses from the prior year. The bank announced a second-quarter dividend of $1.00 per share, which represents a 3.7% yield.

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

CIBC stock fell 2.7% on February 28. Shares have climbed 9.8% in 2019 so far, and the stock is down

4.7% year over year.

The bank released its first-quarter results on February 28. CIBC saw its profit in the first quarter fall 11% year-over-year to $1.18 billion. This missed consensus estimates for the quarter. Segment performance was all over the place in Q1, with double-digit drops posted in Canadian personal and small business banking and Capital Markets. Commercial Banking and Wealth Management segments posted a 25% increase in profit in the U.S., while earnings were static in Canada.

The disappointing quarter did not prevent CIBC from raising its quarterly dividend by $0.04 to $1.40 per share, which represents an attractive 5% yield as of close on February 28. The Q1 report is the second-straight earnings miss for CIBC after years of solid beats. CIBC will be facing a challenging environment as it attempts to right the ship in the second quarter.

Which is the better buy today?

BMO had the superior quarter and announced a share buyback plan, but the stock is pricey right now. Shares of BMO boasted an RSI of 77 as of close on February 28. This puts the stock well into overbought territory to start the month of March.

The first-quarter report succeeded in pushing CIBC well outside of overbought territory. Shares have been pushed back into neutral territory and the bank boasts the highest dividend yield of the Big Six.

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1. Bank Stocks
2. Investing

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