



3 Best-Performing Canadian Banks Year to Date: Are They Buys?

Description

Equity markets have performed relatively well so far this year, much to the delight of investors, especially given the market downturn we experienced late last year. Canadian banks have benefited from this performance as well, but which ones have performed the best?

The largest Canadian bank

Royal Bank of Canada ([TSX:RY](#)) ([NYSE:RY](#)) is the largest Canadian bank by market cap. At writing, the company is up about 10.25% since the beginning of the year. Royal Bank derives most of its revenues from its Canadian operations (around 60%), and holds a strong (often the leading) domestic market share in many of its operational segments.

Among its peers, Royal Bank's operating efficiency is second to none. Over the past five years, the company has averaged a net operating margin of just over 27%, easily outpacing the competition in this regard. Royal Bank also does business in other countries, primarily in the U.S and The Caribbean.

Although its international operations aren't as strong as that of some of its peers, this factor is more than outweighed by its strong domestic operations. Besides, greater exposure to secondary markets such as the Caribbeans presents a risk (along with growth opportunities) for major financial institutions.

Royal Bank currently offers a dividend yield of about 4%, along with a conservative 45% payout ratio. The firm is currently trading at 10.73 times future earnings.

A Canadian bank with very strong U.S operations

Toronto-Dominion Bank ([TSX:TD](#)) ([NYSE:TD](#)) — the second largest Canadian bank by market cap — is up by about 10.37% since early January (at writing). Although the firm also possesses strong domestic operations, often [beating](#) or coming second to Royal Bank in some key segments, TD Bank possesses perhaps the strongest U.S. presence among all Canadian banks. Not only does it have over 1250 branches south of the border, but it also holds a 42% stake in **TD Ameritrade Holdings**.

TD Bank's strong exposure to the U.S. market has been a huge asset in recent years. With a booming economy and favorable tax laws, the U.S. portion of its operations has generally generated increasing revenues.

TD Bank has also done an admirable job of operating efficiently. With a five \-year average net profit margin of just under 26%, it's barely outpaced by Royal Bank. The company offers investors a healthy 4.01% dividend yield along with a 44.35% payout ratio. Currently trailing at just 10.21 times future earnings, TD Bank's valuation is attractive.

The longest running dividend-paying Canadian bank

Bank of Montreal ([TSX:BMO](#)) ([NYSE:BMO](#)) is the fourth-largest Canadian bank by market cap. Year to date, the company's stock is up by about 10.50% (at writing). BMO derives about 90% of its revenues from North America, with about two thirds coming from its domestic operations. Although the bank doesn't hold as strong a market share for many key retail banking segments as some of its competitors, BMO still holds a notable share of the domestic market.

BMO has a decent presence in the U.S., with 30% of its revenues generated from its operations south of the border. Last year, the firm acquired **KGS-Alpha Capital Markets**, a New York-based fixed income broker-dealer specializing in U.S. mortgage- and asset-backed securities. With this acquisition, BMO hopes to strengthen its capital markets division along with its footprints in the U.S.

With a five-year average net profit margin of just under 23%, BMO is not as efficient as some of its competitors. The company has been paying dividends longer than any other Canadian bank, though, first issuing dividend payments in 1829. The bank currently offers a yield of 4.20%, along with a payout ratio of 41.6%. BMO is also attractively valued, trading at just 9.67 future earnings.

The bottom line

If I had to choose one, I would pick Royal Bank, but investors likely can't go wrong with any one of these banks. All three possess strong market shares, present attractive valuations, and offer growing dividends with juicy yields and conservative payout ratios.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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