U.S. Banking Still Racking Up Big Profits: Are These 2 Canadian Bank Stocks Headed Higher?

Description

At the beginning of 2019, many analysts and economists expected the sugar rush from the U.S. Tax Cuts and Jobs Act to taper off as the year went on. The United States reported GDP growth of 3.2% in the first quarter, which blew past expectations. Net trade and inventories were the biggest contributors to this uptick, but U.S. banks had an impressive Q1 2019 going by profits.

Federally insured U.S. banks reported $60.7 billion in net income in the first quarter of 2019. This was up 8.7% from the first quarter in 2018. U.S. banks saw a big boost due to improved margins on loans, which was also a trend for Canadian banks in 2018 and early 2019. However, U.S. banks are also taking higher credit losses in early 2019, which may portend trouble, as growth is expected to slow into the next decade.

The two Canadian banks we will look at today have thrived due to their large U.S. footprint. That means they will also be especially vulnerable if conditions worsen.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is the fourth-largest Canadian bank by market cap. Shares had climbed 11% in 2019 as of close on June 12. The stock was down 2.5% from the prior year.

BMO has one of the largest U.S. footprints of the top Canadian banks. This footprint has powered growth in recent years, especially after U.S. tax reform. In its most recent second-quarter earnings report, BMO reported adjusted net income of $417 million, which was up 16% from the prior year. It achieved this on the back of strong revenue growth. In comparison, adjusted net income in Canadian Personal and Commercial Banking rose 5% year over year to $615 million.

BMO stock had an RSI of 36 as of close on June 12, which still puts it outside technically oversold territory. However, its forward P/E of 10.3 makes it an above-average value play relative to its industry peers right now.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the second-largest Canadian bank and boasts the largest U.S. footprint out of the Big Five. Shares of TD Bank were up 10.5% in 2019 as of close on June 12. However, the stock was still down approximately 1% from the prior year. In late May, I'd explained why TD Bank looked like a risky pickup in June as prices remain high and economic uncertainty is building.

In the second quarter, TD Bank reported adjusted net income of $1.26 billion in its U.S. Retail Banking segment. This represented a 20% increase from the prior year. The U.S. Retail segment, which excludes TD Ameritrade results, saw profits rise 17% on an adjusted basis. This was due to higher deposit margins and increased loan and deposit volumes. The Canadian Retail Banking segment reported adjusted net income of $1.87 billion, which was up only 2% from Q2 2018.

TD Bank stock boasts a forward P/E of 11, which is still slightly pricey relative to its peers. The stock also offers a middling dividend yield of 3.9% in comparison to competitors.

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