Better Buy: Toronto-Dominion Bank (TSX:TD) vs. Bank of Montreal (TSX:BMO)

Description

Countless Canadian investors have done well owning our top bank stocks over the years. The sector has helped millions of Canadians retire wealthy.

For me, the question isn't about owning a Canadian bank or three. I know these companies are an excellent place to put my capital. They are must-own investments. The question is, which Canadian bank should I own?

Many don't even bother to choose, loading up on each member of the infamous Big Five banks. But I think we can do a little better by being a bit choosier.

Let's take a closer look at two of Canada's top banking stocks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO). Which one should get your investment dollars today?

Canadian operations

Both of these banks have terrific operations here at home, generating billions in steady profits from millions of happy customers. But I'd have to give TD the edge in this category.

TD Bank reported $1.7 billion in profits from its Canadian retail banking division last year, an increase of 5% versus the year before. The company has done a terrific job of boosting its mortgage business, acquiring new credit cards, and increasing its wealth management business. Many investors view TD as Canada's finest bank stock because they can see these improvements.

Bank of Montreal has also done an excellent job with its Canadian retail banking division, but it just doesn't have the growth potential offered by TD. Net income from Canadian banking rose less than 1% in fiscal 2018 for BMO. It's still an excellent business, but I don't see it delivering much more than tepid growth over the medium term, especially if we get a slowdown in the housing market.

U.S. operations

Both TD and BMO are delivering excellent growth from their U.S. subsidiaries, and this alone is making many investors bullish.

Let's start with BMO this time. In 2018, the company's U.S. division generated $1.12 billion in profits versus $823 million the year before. That's an eye-popping 38% profit growth in the division, although investors must remember part of this increase is thanks to lower U.S. corporate tax rates. Still, it's obvious that the U.S. operations are doing quite well.

TD also got a nice boost from its U.S. division. Its U.S. retail bank reported a 32% increase in net income in fiscal 2018, which excludes the TD Ameritrade division. Once we factor in Ameritrade's contribution to the bottom line, the division boosted earnings by 44%.

Both TD and BMO offer solid long-term growth potential in the United States, but TD's recent performance is just a little better than BMO's.

Valuation and dividend

TD is widely viewed as one of Canada's finest banks — if not *the* finest — so it gets a premium valuation. Shares trade at 12.3 times trailing earnings. The bottom line is expected to increase to $6.80 per share in 2019, putting the stock at just over 11 times forward earnings. The dividend is 3.9%, the lowest of its peers.

BMO's valuation is much more attractive. The stock trades at 10.6 times trailing earnings. BMO's net income is also expected to rise in 2019, increasing to $9.59 per share, putting the forward price-to-earnings ratio at 10.4. BMO's dividend is currently 4.1%.

Some investors would argue that BMO is cheaper than TD for a reason. Ultimately, however, BMO clearly wins on the valuation front.

Which should you choose?

If I were putting capital to work in the sector today, I would likely choose TD over BMO. The former is widely regarded as the better bank, and I think investors should always choose quality over value if the valuation is similar.

But if BMO was cheaper, I'd be all over that stock. Perhaps investors should take a longer look at Bank of Montreal shares when they get closer to their 52-week low.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/09/10
Date Created
2019/07/15
Author
nelsonpsmith