Bank of Nova Scotia (TSX:BNS) vs. Bank of Montreal (TSX:BMO): Which Is a Better Buy Today?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) just reported their fiscal third-quarter earnings yesterday.

With the big Canadian bank stocks, investors should have a long-term view because a big part of their returns come from their juicy and growing dividends. Which is a better buy for the next five years?

Bank of Nova Scotia

Scotiabank's international expansion appears to be bearing fruit. The bank increased its adjusted earnings per share by 6.8% for Q3 against the comparable quarter a year ago. This was a marked improvement compared to its year-to-date earnings results, which were essentially flat.

Scotiabank had been reducing or selling its international investments to focus on key markets in the Pacific Alliance region. Indeed, last year, the bank doubled its market share and became the third-largest private bank in Chile by acquiring BBVA Chile and expanded its small and medium enterprise operations in Colombia by acquiring assets from **Citibank**.

These strategic moves propelled the bank's adjusted earnings from the International Banking segment by 22% year over year versus the nine months a year ago.

On another note, thanks to the MD Financial and Jarislowsky Fraser acquisitions last year, the Canadian Wealth Management earnings grew 20%.

BNS stock hiked its dividend by 5.9% year over year and now offers a juicy yield of nearly 5.3%. Also, at about $68.60 per share, the stock is about 20% undervalued, which is a wonderful bargain in a blue-chip dividend-growth stock.

Bank of Montreal

BMO increased its adjusted earnings per share by a lacklustre rate of 1% for Q3 against the comparable quarter a year ago. What may have really scared investors (BMO stock fell 3.4% for the day) was that its provision for credit losses (PCL) made a scary jump of 64% year over year.

However, it's important to note that the PCL ratio climbed from last year's 0.19% to just 0.28% for the quarter. Moreover, the 0.28% aligns with the Big Six banks' average.

So, if anything, the PCL ratio for Q3 2018 was an anomaly. In other words, I don't see this jump as a deterioration of BMO's loan quality, unless this kind of jump becomes a trend, and the PCL ratio stays higher than normal for an extended period.

At about $89.20 per share, BMO stock offers a nice yield of 4.6%, and shares that are about 19% undervalued.

Who wins?

It was a close race. Because Scotiabank offers a slightly bigger discount and 14% higher in dividend income, I proclaim it as the winner! Longer term, at the current depressed levels, both bank stocks should be able to deliver total returns of more than 13% per year.

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