



## TFSA Investor: Should You Buy Royal Bank of Canada (TSX:RY) or Bank of Montreal (TSX:BMO) Stock Today?

### Description

The share prices of Canadian [bank stocks](#) have gone through some volatility in the past year and investors are wondering which ones might be interesting picks right now for their self-directed portfolios.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) to see if one deserves to be on your TFSA [buy list](#).

### Royal Bank

Canada's largest bank by market capitalization generates about \$1 billion in profits every month. Yes, that's correct — Royal Bank reported fiscal 2018 adjusted earnings of \$12.4 billion and the financial giant is on track to beat those numbers in 2019.

The company's success comes from a combination of strong personal and commercial banking, wealth management, capital markets and insurance operations in Canada, and around the globe. Royal Bank is now the Canadian bank with the largest international presence.

Royal Bank is well capitalized with a CET1 ratio of 11.9%, so there shouldn't be any concern about the bank's ability to ride out another global economic downturn.

Net income rose 5% to \$3.3 billion in fiscal Q3 compared to the same period last year. Personal and commercial banking profits increased 8% and wealth management net income surged 11% to a record \$639 million.

The slimmed-down insurance division saw net income jump 29% to \$204 million. Capital markets income, which tends to be more volatile, slipped 6% on an year-over-year basis.

Overall profitability remains robust with return on equity of 16.7%.

Royal Bank recently increased the dividend for the second time in 2019. The current quarterly payout

of \$1.05 per share provides an annualized yield of 3.9%.

The stock trades at \$107 per share at writing, which is just shy of the 12-month high. Royal Bank dipped to \$98 in August and was as low as \$90 in late December 2018. The stock isn't on sale right now, but trades at a reasonable 12.3 times trailing earnings.

A \$10,000 investment in Royal Bank 20 years ago would be worth about \$140,000 today with the dividends reinvested.

## Bank of Montreal

Bank of Montreal is the fourth-largest bank in Canada with a market capitalization of \$62 billion. That's less than half the size of Royal Bank, which has a market capitalization above \$150 billion.

Bank of Montreal also gets its revenue from balanced operations across personal and commercial banking, capital markets, and wealth management. The international footprint isn't as extensive as Royal Bank's, but Bank of Montreal does have a strong personal and commercial banking division in the United States.

Adjusted net income in fiscal Q3 2019 came in at \$1.58 billion, or 1% better than the same period in 2018. Adjusted return on equity was 13.5% and Bank of Montreal has a CET1 ratio of 11.4%.

Bank of Montreal has paid a dividend every year since 1829. The distribution increased 7% from Q3 2018 to Q3 2019 and provides an annualized yield of 4.25% at the current stock price of \$97 per share at writing.

The stock has traded in a range of \$86 to \$106 over the past year, so it's sitting right in the middle. At roughly 10.3 times trailing earnings, Bank of Montreal appears somewhat oversold.

A \$10,000 investment in Bank of Montreal 20 years ago would be worth about \$80,000 today with the dividends reinvested.

## Is one a better buy?

Royal Bank and Bank of Montreal should both be solid buy-and-hold picks for an income-focused TFSA.

Bank of Montreal appears more attractive right now on a valuation basis and offers a slightly higher yield. If you think the U.S. economy will hold up in the next few years, the stock deserves to be on your radar.

Investors who prefer to own the largest player in the sector should probably go with Royal Bank. The company's profitability remains high and the stock still offers a solid yield near 4%.

### CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
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