Is TSX:BMO or TSX:TD the Best Canadian Bank Stock to Invest in Today?

Description

The Big Five banks are a mainstay for many Canadian investors; they either own common shares or have access through an exchange-traded fund. Consisting of **RBC**, **TD Bank** (TSX:TD)(NYSE:TD), **Scotiabank**, **Bank of Montréal** (TSX:BMO)(NYSE:BMO), and **CIBC**, the Big Five banks have an impressive reputation of stability and Dividend Aristocrat status.

Over the past five years, both the S&P/TSX Composite Index and the Big Five banks have averaged roughly 4.5% in stock price growth, not including dividends. With all the Big Five banks lagging behind the strong Canadian market return of 22% in 2019, now is a great time to add a bank stock to your portfolio. Let's take a closer look and compare two of the five to see which should be at the top of your watch list.

Geographic presence

In terms of market cap size, TD is by far the larger company. With a market cap of $135 billion, TD is more than double the size of Bank of Montréal. A major reason for this gap in size comes from U.S.-generated income. In its most recent quarterly earnings (2019 Q4), TD reported a net income of $1.75 billion, with 24% of that net income coming from U.S. Retail Banking and another 8% from **TD Ameritrade**.

TD may beat BMO in U.S.-driven net income, but BMO is making large strides in gaining market share. Reported in its 2019 Q4 earnings, U.S. net income increased by 23% year over year from 2018. But now that TD is officially a top 10 U.S. bank, sitting at ninth[h] in asset size with $384 billion, it gets the edge over BMO with regards to geographic presence.

Valuation

After evaluating the size of each company, now we can look at the stock price and valuation to determine how each is priced. Both banks have closely followed the returns of the Canadian market over the past five years, with TD averaging a 5.5% return (not including dividends) over that period, and BMO averaging a 4.5% return (not including dividends).

The P/E ratio measures the share price of a company relative to its earnings per share, which we will use to determine how expensive each stock is. BMO has a P/E ratio of 11.7 versus 12.1 from TD. Although both are very close in price, BMO is slightly cheaper than TD.

The P/E ratio is only looking at today's prices, though, and not accounting for any future growth in earnings, which is what the PEG ratio measures. When incorporating projected growth in earnings, the lower PEG ratio (five-year expected) of 1.4 from TD versus 2.5 from BMO highlights that TD is more undervalued when incorporating the projected growth in earnings.

Dividend

BMO and TD not only pay generous dividends, but they are also very reliable. BMO currently yields a dividend of 4.15%, which has been paid out to shareholders since 1829. Although not as impressive as BMO, but still respectable, TD began paying dividends in 1857 and currently yields 3.92%. While both banks have deservedly earned the Dividend Aristocrat status, the edge here goes toward BMO, which is sporting the higher yield and a staggering dividend streak of 190 years.

Foolish bottom line

Both banks are very reasonably priced today, as each lagged in growth behind the Canadian market in 2019 and yield high dividends with reliability that is second to none. If I had to choose to own only one, I'd go with TD. Through growth and acquisitions, TD is now a top five Canadian bank and a top 10 American bank. The impressive U.S. presence is not only an excellent way to gain exposure to the U.S. economy but also helps limit the risk from a crash in the Canadian economy.

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