



## Dividend Investors: Should You Buy Bank of Nova Scotia (TSX:BNS) or Bank of Montreal (TSX:BMO) Stock?

### Description

The share prices of the Canadian banks picked up a nice tailwind after the fiscal Q2 results. With the economy now reopening, investors are wondering which [banks](#) might be interesting picks for a TFSA or RRSP portfolio.

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

### Bank of Nova Scotia

Bank of Nova Scotia is Canada's third-largest bank with a market capitalization of \$70 billion. The firm employs nearly 100,000 people and is known for its big bet on growth in Latin America.

The international operations present investors with risk and opportunity.

On the risk side, the pandemic continues to hit the region hard. Bank of Nova Scotia's largest foreign operations are located in the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia, where governments are still trying to flatten the curve.

Bank of Nova Scotia booked \$1 billion in provisions for credit losses (PCL) in Q2 2020 for the international operations. This compares to \$670 million for the Canadian Banking division. If the pandemic turns out to be worse than expected in Latin America, defaults could be higher.

Adjusted net income for the quarter came in at \$1.37 billion — down 39% compared to Q2 2019 as a result of the higher PCL.

Beyond the pandemic, the international business holds strong growth potential for Bank of Nova Scotia. Government stimulus measures across the globe could result in higher commodity prices in the next couple of years. This would benefit the Pacific Alliance countries due to their heavy reliance on oil and copper production.

Expansion of the middle class should also boost demand for loan and investment products. The Pacific Alliance bloc is home to more than 225 million people.

Bank of Nova Scotia trades at \$59 per share at the time of writing. The stock sat above \$74 in February, so there is decent upside potential on an economic rebound.

The bank finished Q2 with a CET1 ratio of 10.9%, so it has the capital to ride out the downturn. The [dividend](#) should be safe. Investors who buy today can pick up a 6.1% dividend yield.

## Bank of Montreal

Bank of Montreal is Canada's fourth-largest bank with a market capitalization of \$50 billion.

The company is known for its strong commercial banking operations in both Canada and the United States. Bank of Montreal entered the U.S. market in the 1980s when it bought Harris Bank. The American business is primarily located in the Midwest states and serves clients through roughly 500 branches.

Bank of Montreal reported fiscal Q2 2020 adjusted net income of \$715 million compared to \$1.5 billion in the same quarter last year. The drop is due to a jump in PCL to \$1.1 billion from \$176 million in Q2 2019.

Bank of Montreal ended the quarter with a solid CET1 ratio of 11%. The company maintained the dividend in the report, and the payout should be safe. Bank of Montreal has paid investors a distribution every year since 1829. The current dividend provides a yield of 5.5%.

The U.S. is following an aggressive reopening schedule, and the government is providing unprecedented monetary and fiscal support to get the economy back on track.

A V-shaped recovery would help Bank of Montreal's U.S. division and could result in lower loan defaults than anticipated.

Bank of Montreal trades at \$77 per share. The stock was above \$100 in February and slipped as low as \$56 in March.

## Is one more attractive?

Bank of Nova Scotia and Bank of Montreal should both be solid buy-and-hold picks for a TFSA or RRSP portfolio.

Income investors who don't mind the added risk might want to make Bank of Nova Scotia the first

choice. Otherwise, Bank of Montreal provides good exposure to the U.S. recovery and still offers an attractive dividend yield.

I would probably split a new investment between the two banks today.

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