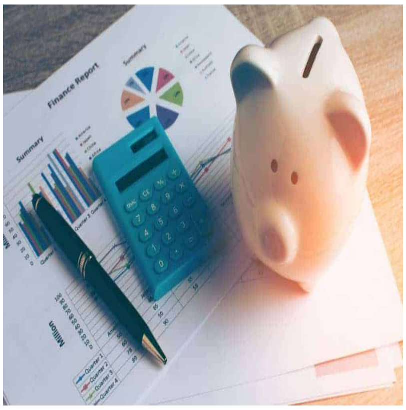

Better Bank Stock: Scotiabank (TSX:BNS) or Bank of Montreal (TSX:BMO)?

Description

Canadian financial stocks have seen significant turbulence in the first half of 2020. The COVID-19 pandemic has ushered in an economic crisis that may exceed the severity of The Great Recession in the late 2000s. Canada proved resilient in the previous global recession.

Bank stocks were hit with volatility, but the robustness of Canada's top financial institutions gained international praise. In this crisis, bank stocks have been hit by volatility again.

Today, I want to look at two top Canadian banks that have failed to recoup losses since the market crash earlier this year. Which is the better buy today? Let's jump in.

Bank stock: Should divestment scare you away from Scotiabank?

Scotiabank (TSX:BNS)(NYSE:BNS) is notable for its large international exposure compared to its peers. Shares of Scotia have climbed 11% month over month as of close on June 22. In late May, I'd discussed why Scotia received a bump after its second quarter earnings release.

This week, Scotiabank announced that it was selling its Belize operations. This coincided with a string of divestments the bank has pursued in the Caribbean and Central America. Investors should not be discouraged, however, as Scotia is aiming to redeploy capital toward its core Latin American markets.

Similar to its peers, Scotia saw provisions for credit losses skyrocket in the second quarter. However, it and other Canadian bank stocks have still managed to gain momentum after earnings season. Scotia boasts an immaculate balance sheet and is prepared to weather this crisis.

Shares of Scotia last had a price-to-earnings ratio of 9.3 and a price-to-book value of 1.0, putting the bank stock in favourable value territory. Moreover, Scotia offers a quarterly dividend of $0.90 per share. This represents a tasty 6.3% yield.

Is Bank of Montreal the better bet?

Bank of Montreal (TSX:BMO)(NYSE:BMO) stock has climbed 17% month over month. While BMO does not possess Scotia's international reach, it does offer nice exposure to the United States. The U.S. has pursued a more aggressive reopening, but it has also reported stunning job losses.

Moreover, rising COVID-19 rates could slam the brakes on a recovery. BMO released its second-quarter 2020 results on May 27.

The bank reported provisions for credit losses of $1.11 billion – up from $176 million in the prior year. Adjusted net income fell to $715 million, or $1.04 per share compared to $1.52 billion or $2.30 per share in Q2 2019. BMO also has an excellent balance sheet that puts it in a great position to weather this economic crisis.

BMO stock last possessed a favourable P/E ratio of 10 and a P/B value of 0.9. Shares are trading in the middle of its 52-week range. Better yet, BMO also maintained its quarterly dividend of $1.06 per share. This bank stock offers a slightly lower but still strong yield of 5.6%.

Verdict

As usual, this is a close contest. Both bank stocks possess nice value as we move into the summer. However, I prefer Scotia by a hair for its value and its superior dividend yield.

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