Better Dividend King: Bank of Montreal (TSX:BMO) or TD Bank (TSX:TD)?

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) and **TD Bank** (TSX:TD)(NYSE:TD) are two premier Big Five Canadian banks that are facing the perfect storm of headwinds this year. The Canadian credit downturn and the coronavirus disease 2019 (COVID-19) crisis have sent shares of both names tumbling into the abyss.

A bottom looks to have formed for the big Canadian banks, and with the worst quarters potentially in the rear-view mirror, now seems as good a time as any to initiate a contrarian position in the two Dividend Aristocrats while their valuations are depressed and their dividend yields are swollen.

BMO and TD Bank are the two most attractive Canadian bank stocks at this juncture, but which, if any, should you be a buyer of as the world economy prepares for a much-dreaded second COVID-19 wave?

Bank of Montreal

With a 5.4% dividend yield, BMO is the more bountiful bank stock to own. The bank took the hardest hit to the chin relative to its Big Five peers thanks to its above-average exposure to oil and gas (O&G) loans. This crisis has decimated the energy sector, and BMO was viewed as the most vulnerable Canadian bank stock based on its loan mix.

BMO has more than its fair share of energy loans. The bank is at greater risk of being left holding the bag should energy companies begin defaulting on their debt obligations en masse in a worsening of this pandemic. There's no question that fossil fuels are the place to avoid right now, but with a capital ratio that remains robust, shares are beyond oversold, even with a bear-case scenario in mind.

Nobody knows whether BMO has seen peak provisions for credit losses (PCLs). After a better-than-feared quarter, BMO is better-poised to navigate the hailstorm environment than most think. No, BMO's mix isn't ideal, but the bank is a far better risk mitigator than most give it credit for.

Today, BMO stock trades at 1.05 times book value and 9.8 times next year's expected earnings. If this pandemic drags on past 2021, BMO could be stuck in limbo for longer, but if we're due for an abrupt recovery in 2021, BMO stock could soar, as the focus moves from damage control to EPS growth again. Shares of the Dividend Aristocrat are so cheap that I don't think it'll take much to move the needle on the name. So, if you're looking for upside and deep value, BMO is a top pick.

TD Bank

TD Bank is a premier bank with excellent risk-mitigating managers running the show. While the bank got caught offside alongside its peers amid this crisis, the name is worthy of a premium to its peer group. TD Bank certainly hasn't been the best performer of the Big Six lately.

It's been in the middle of the pack, with PCLs that continue to erode the bank's profits. Like BMO, TD Bank sports a terrific capital ratio and expenses are on the downtrend, which bodes well for the firm as it looks to get back on the path to profitability.

TD Bank's third-quarter results were nothing to write home about, as EPS fell around 30%. As the North American economy heals from this crisis, TD Bank could have a good amount of upside, and if you're looking for less-volatile growth, TD Bank is the horse to bet on while shares trade at 1.3 times book value and 10.6 times next year's expected earnings. TD Bank hasn't been a premier play this year, but it's still worthy of a premium price tag given the solid fundamentals and its exceptional stewardship.

While TD Bank may not be the cheapest or the most bountiful Canadian bank stock, if quality at a reasonable price is what you seek, TD may be the horse to bet on. Personally, I prefer BMO, as it's a far cheaper play with greater upside potential coming out of this pandemic.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks

2. Dividend Stocks

Date
2025/10/01
Date Created
2020/09/22
Author
joefrenette