TD Bank (TSX:TD) vs Bank of Montreal (TSX:BMO) – Which U.S. Deal is Better?

Description

The **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) both have large U.S. deals in the works.

TD is in the process of buying **First Horizon** (NYSE:FHN), while BMO is buying Bank of the West from a larger European bank.

Both of these deals have a lot of potential. First Horizon is positioned in one of the U.S.'s fastest growing regions in the Southeast, while Bank of the West is a major player in the biggest state (California). Both TD and BMO stand to expand their presence significantly. The question is, which deal is better?

BMO's deal

Right out of the gate, BMO is getting more assets from its deal than TD is. Bank of the West has $105 billion in assets, whereas First Horizon only has $89 billion. So, BMO is getting a bigger increase in its U.S. presence than TD is. This is especially the case in terms of growth: TD is currently a much bigger bank than BMO, with a larger percentage of its earnings coming from the United States. Therefore, BMO's larger U.S. acquisition will increase its presence by a greater margin than TD's will.

There is also the matter of valuation. TD is paying $13.4 billion for $89 billion in assets, while BMO claims to be paying $13.4 billion for $105 billion in assets. It looks like BMO is getting the better deal. However, BMO is actually paying $16.3 billion upfront, and is subtracting Bank of the West's excess capital (assets beyond what regulators require) from the price. Using $16.3 billion as BMO's price and $13.4 billion as TD's price, we get TD paying $0.15 per dollar of assets, and BMO paying $0.155. So TD is actually paying less per dollar of assets upfront.

TD Bank's deal

Having looked at BMO's Bank of the West deal, let's focus on TD Bank's First Horizon deal.

As we've seen already, TD is paying $13.4 billion for FHN, and getting $89 billion in assets. Based on FHN's earnings in the last 12 months ($827 million), TD is valuing it at 16.2 times earnings. This is a little expensive for a bank. For reference, TD's own stock costs about 10.5 times earnings right now. However, TD says that it can help First Horizon earn more profit when it becomes part of TD Bank. When TD buys out FHN, it says that it will realize $610 million worth of "cost synergies," which means savings that come from combining operations after one company buys another. Big companies can negotiate lower prices on office supplies, computer equipment and other costs than small companies can. When First Horizon becomes part of TD, it will enjoy some of TD's negotiating power, and can potentially lower its costs. That could generate some extra profits, though I wouldn't take TD at their word when they say $610 million worth. That's a pretty ambitious target.

Foolish takeaway

Having looked at TD and BMO's U.S. deals, it looks like TD's is slightly better. TD is paying slightly less per dollar of assets than BMO is, when you compare the prices paid on an apples-to-apples basis. Of course, BMO is getting more assets in total, so it is expanding its U.S. footprint more than TD is. Overall, both deals are promising.

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Date
2025/07/19

Date Created
2022/08/19
Author
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