



Better Buy: BMO Stock vs. TD Bank

Description

Bank stocks are off their 2022 lows, and investors are wondering if this is the right time to buy [Canadian banks](#) for their [Tax-Free Savings Account \(TFSA\)](#) or [Registered Retirement Savings Plan \(RRSP\)](#) portfolios. **TD Bank** ([TSX:TD](#)) and **Bank of Montreal** ([TSX:BMO](#)) are of particular interest, as they work through large acquisitions south of the border.

TD Bank

TD recently announced it will start reporting its wealth management and insurance results under a separate segment. In the past, the earnings from these business lines were reported as part of the personal and commercial banking numbers for the Canadian retail banking operations. The change, which takes effect in the fiscal fourth quarter (Q4) of 2022, will make it easier for investors to compare TD's earnings to its peers.

TD is on track to top its 2021 earnings in 2022. Adjusted net income for the first nine months of fiscal 2022 came in at \$11.36 billion compared to \$10.78 billion in the same period last year.

The bank is working through two acquisitions in the United States that will increase the size of both the retail banking and investment banking operations in the country. TD's US\$13.4 billion purchase of **First Horizon** will expand the presence in several southeastern states. The move makes sense, as TD already has an extensive branch network that runs from Maine right down the east coast to Florida.

TD is also buying **Cowen** for US\$1.3 billion to beef up its competitive position in capital markets activities.

TD stocks trades near \$89 per share at the time of writing. It was as high as \$109 in February. Economic headwinds are likely on the way in 2023 and 2024, but TD remains very profitable, and investors should see steady dividend growth in the coming years. TD raised the payout by 13% for fiscal 2022. The compound annual dividend-growth rate has been about 11% since the mid-1990s.

The current dividend yield is 4%.

Bank of Montreal

Bank of Montreal is now Canada's third-largest bank with a market capitalization of \$87 billion. The company paid its first dividend back in 1829, and investors continue to see attractive dividend growth. Bank of Montreal raised the payout by 25% at the beginning of fiscal 2022 and then bumped it up by another 4.5% when the bank reported the fiscal Q2 2022 results. The current yield is 4.3%.

Bank of Montreal is betting big on economic expansion in California with its US\$16.3 billion acquisition of **Bank of the West**. The deal will add 1.8 million customers, US\$59 billion in loans, US\$80 billion in deposits, and 514 branches to BMO Harris Bank, the existing American subsidiary. Bank of the West gets 70% of its deposits from customers in California.

Bank of Montreal generated adjusted net income of \$6.9 billion for the first nine months of fiscal 2022 compared to \$6.4 billion in the same period last year.

The stock looks [undervalued](#) right now near \$128 per share. Bank of Montreal traded as high as \$154 in March.

Is one a better bet?

TD and Bank of Montreal pay attractive dividends that should continue to grow. The stocks appear cheap right now and should deliver solid long-term total returns for patient investors. At this point, I would probably split a new investment between the two bank stocks.

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Date

2025/07/22

Date Created

2022/11/09

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