



## Bank of Montreal Results: Weak Domestic Banking

### Description

It was **BMO's** (TSX:BMO,NYSE:BMO) turn to report this morning and based on the stock's performance thus far, down 2.4%, the market didn't like what it saw.

Adjusted EPS of \$1.46 in the quarter was less than the consensus bet of \$1.49/share, but perhaps more troubling was the continuation of the domestic slowdown theme that we have noted in both [TD's](#) and [Scotia's](#) reports.

Canadian retail banking revenues were flat year over year, but income growth was in fact negative. The table below summarizes the income growth trajectory for the bank's Canadian P+C business.

Q2/13	Q2/12	YoY Change	Q1/13	QoQ Change
\$431M	\$436M	-1.1%	\$461	-6.5%

### Consequences

This slowdown in domestic banking is having an impact on the bank's return on equity (ROE). This metric stood at 14.5% at the end of Q2/13, down from 15.4% at this time last year.

Over the past 10 years, BMO's quarterly ROE has averaged 15.5%, but has been as high as 21%. The erosion in this metric that has occurred, especially given the reasonable economic times that we're in, is somewhat troubling.

### Foolish Takeaway

Given today's slide, BMO trades at a Price/Book multiple of 1.5. Its 10 year average is 1.9. With an ROE that is just 6% below its 10 year average, and a P/B multiple that's more than 20% below its long-term average, it can be argued that downside in BMO's stock is potentially limited. However, multiple

expansion can't be expected until earnings growth resumes. Therefore, upside is probably limited as well. This story holds for most of the Canadian banks.

Because of their significant weight in the S&P/TSX Composite Index, a lack of capital appreciation from the banks means the Canadian market could be stalled, making passive Canadian index investors vulnerable to disappointing returns in the coming years.

We have prepared a [Special FREE Report](#) that will clue you into the perils of investing in the Canadian index and suggests an easy to implement alternative strategy. It's called "**5 Stocks That Should Replace Your Canadian Index Fund**" and you can receive a copy at no charge – just by [clicking here](#).

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

*Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

## Category

1. Investing

## Date

2025/09/26

## Date Created

2013/05/29

## Author

tmfohcanada

default watermark

default watermark