



3 Reasons Why Now Is the Time to Buy the Bank of Montreal

Description

Canada's big six banks have performed impressively over recent years, reporting ever higher record earnings and continuing to reward loyal investors with consistent dividend hikes. In fact it has been hard for investors to go wrong regardless of which of the big six they held in their portfolio. But there are already signs that all is not equal among the banks, with each having embarked on a different strategy to grow earnings and boost the bottom line.

I believe the most attractively priced of the big six at this time is the **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)), but this won't last long with a number of tailwinds set to push the banks share price higher. This makes now the time for investors to take the plunge and the reasons for this can be distilled into a few key points.

First, its U.S. business leaves it well positioned to benefit from the better than expected U.S. economic recovery. The U.S. economy in many respects is recovering far better than expected, with industrial activity rising sharply and unemployment at its lowest point in three months. Stronger consumer spending has also buoyed the economy and is expected to be a key driver of growing credit demand in the U.S. This saw GDP growth for the third quarter 2014 of 3.5%, exceeding the 3% forecast.

Each of these factors bodes well for the Bank of Montreal, with its solid retail and commercial banking franchise in the U.S. midwest. Already this business contributes 13% of the bank's net income and saw its third quarter net income grow 2% year-over-year primarily driven by strong loan growth.

I expect this trend to continue, as the U.S. economy continues to strengthen leading to higher demand for credit, further boosting the Bank of Montreal's bottom line.

It also reduces the bank's dependence on Canada's already saturated financial service market for growth. This gives it superior growth prospects over those peers primarily focused on the domestic market like **National Bank of Canada** and the **Canadian Imperial Bank of Commerce**. I believe it is also a less risky strategy than **Royal Bank of Canada's** foray into capital markets, which now sees that business contributing over a quarter of its net income.

Second, it appears attractively priced in comparison to its peers. For the year-to-date, the Bank of

Montreal's share price has shot up an impressive 11%, making it the second biggest gainer over that period among the top six banks after National Bank of Canada, which gained 21%. But despite this solid performance it still remains attractively priced, particularly in comparison to its peers with a price-to-book ratio (P/B) of 1.8. This is compared to National Bank of Canada's P/B of 2.1, the **Bank of Nova Scotia's** P/B of 1.9, **Toronto Dominion's** P/B of 2, CIBC's P/B of 2.4, and Royal Bank's P/B of 2.5.

Third and the real reason for investing in the Bank of Montreal, is that it hasn't missed a dividend payment since 1829. This means it has paid a dividend every year for the last 185 years. But more impressively during the global financial crisis, the greatest financial shock since the Great Depression, the bank maintained its dividend, while other banks globally were slashing or even discarding theirs. This sets an important precedent for investors, reminding them of the prudent approach management takes to managing risk and ensuring dividend stability.

As a result the Bank of Montreal now pays a very juicy dividend yield of 3.8% coupled with a very sustainable and conservative payout ratio of 48%.

For these reasons investors should consider taking the plunge now before the bank's valuation catches up with its peers.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:RY (Royal Bank of Canada)

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