Is Now the Right Time to Buy Bank of Montreal?

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO), the fourth-largest bank in Canada in terms of total assets, announced second-quarter earnings before the market opened on May 27, and its stock has responded by making a slight move to the downside. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

Breaking down the second-quarter results

Here's a breakdown of Bank of Montreal's second-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$1.71	$1.66	$1.63
Net Revenue	$4.50 billion	$4.59 billion	$4.04 billion

Source: Financial Times

Bank of Montreal's earnings per share increased 4.9% and its revenue, net of insurance claims, commissions, and changes in policy benefit liabilities, increased 11.4% compared with the second quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its adjusted net income increasing 4.5% to $1.15 billion, driven by 33.8% growth to $265 million in its Wealth Management segment and 8.4% growth to $706 million in its Personal & Commercial Banking segment.

Its double-digit increase in net revenue can be attributed to its non-interest revenue increasing 4.7% to $2.41 billion, driven by mutual fund revenues increased 49.2% to $355 million and trading revenues increasing 29.7% to $319 million.

Here's a breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total revenues increased 3.6% to $4.53 billion
2. Net interest income increased 2.4% to $2.11 billion
3. Total assets increased 8.8% to $633.28 billion
4. Total deposits increased 7.7% to $424.23 billion
5. Total net loans and acceptances increased 7.2% to $315.86 billion
6. Total assets under administration increased 11% to $584.08 billion
7. Total assets under management increased 81.8% to $387.67 billion
8. Book value per share increased 12.4% to $51.65

Bank of Montreal also announced a 2.5% increase to its quarterly dividend to $0.82 per share, and the next payment will come on August 26 to shareholders of record at the close of business on August 3.

Should you buy shares of Bank of Montreal right now?

Bank of Montreal posted a solid second-quarter performance, so I do not think the slight post-earnings drop in its stock is warranted. I also think that this represents a very attractive long-term buying opportunity because the stock trades at low forward valuations and has a high dividend yield.

First, Bank of Montreal's stock trades at just 11.7 times fiscal 2015's estimated earnings per share of $6.65 and only 10.9 times fiscal 2016's estimated earnings per share of $7.13, both of which are inexpensive compared with the industry average price-to-earnings multiple of 14.2. It also trades at a mere 1.5 times its book value per share of $51.65, which is very inexpensive compared with its market-to-book value of 1.7 at the conclusion of fiscal 2014.

Second, Bank of Montreal now pays an annual dividend of $3.28 per share, which gives its stock a 4.2% yield at today's levels. The company has also increased its dividend six times in the last four years, making it one of the top dividend-growth plays in the industry today, and its consistent free cash flow generation could allow for another increase in the near future.

With all of the information provided above in mind, I think Bank of Montreal represents one of the best long-term investment opportunities in the market today. All Foolish investors should strongly consider beginning to scale in to positions.

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Date
2025/10/01
Date Created
2015/05/27
Author
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