



Should You Buy Bank of Montreal Around Earnings Report Time?

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) starts reporting third-quarter earnings on August 25. From the 2014 high of \$84, the shares have retreated to \$73. Is the 13% dip a good chance to buy some shares, or should you wait after the earnings report?

First, let's take a look at Bank of Montreal's business.

The business

The bank was established in 1817, and is now the second-largest Canadian bank by retail branches in Canada and in the United States, and it's the eighth-largest bank in North America by assets.

As of the end of April 2015 it has total assets of \$633 billion. Bank of Montreal provides products and services to over 12 million customers in retail banking, wealth management, and investment banking.

56% of its sources of net income are personal and commercial banking (of which, 31% is from the United States and 69% from Canada), wealth management (21%), and capital markets (23%).

Sales and earnings

Over the past decade, Bank of Montreal has had positive earnings every year. Its recent sales and earnings performance is shown below. It looks like sales will continue to grow for this year, and earnings are forecasted to grow by about 5%.

Year Sales Growth Earnings Growth

2011	—	—
2012	17.6%	16.8%
2013	0.8%	1.8%
2014	2.8%	2.4%

Dividend

The bank has grown its dividends for three years in a row. It froze the dividend during the financial crisis of 2008, and kept it frozen longer than the other Big Five banks. It only started increasing it again in the fourth quarter of 2012.

In July it increased its quarterly dividend by 2.5% to \$0.82 per share. With a forward payout ratio around 51%, its dividends are sustainable.

What returns to expect

Bank of Montreal is priced around \$73 with a yield of 4.5%. Bank of Montreal is trading at a price-to-earnings ratio under 11, while it has normally traded at a multiple of 11.6-12.1, indicating its shares are discounted by about 8-11% according to fiscal year-end earnings estimates.

With the yield at 4.5% and earnings expected to grow by about 5% in the foreseeable future, it's projected that Bank of Montreal will generate returns of at least 9%.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Bank of Montreal could go up or down 3% in one day.

Because of Bank of Montreal shares are priced at a slight discount today, Foolish investors can act cautiously by buying half a position now and finishing off the position after the earnings report.

That is, if you plan to buy \$5,000 worth of shares, you could buy \$2,500 today, and buy more after the earnings report.

Pro earnings report, if the price goes up it means the company is doing better than expected. If not, then you might be able to spend another \$2,500 to buy more shares at a lower price.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/27

Date Created

2015/08/17

Author

kayng

default watermark

default watermark