



## The Case to Buy Bank of Montreal Today

### Description

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), the fourth-largest bank in Canada in terms of total assets, has watched its stock widely underperform the overall market in 2015, falling over 16% as the TSX Composite Index has fallen about 8%, but I think it could turn things around and widely outperform from this point forward. Let's take a look at three of the primary reasons why I think this could happen and why you should consider making it a core holding today.

#### 1. Its strong earnings results could support a continued rally

On the morning of August 25, Bank of Montreal released strong earnings results for its three and nine-month periods ending on July 31, 2015, and its stock has responded by rising over 4% in the weeks since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 2.2% to \$3.42 billion
2. Adjusted diluted earnings per share increased 2.6% to \$5.10
3. Total revenue increased 6.1% to \$14.41 billion
4. Total assets increased 14.6% to \$672.44 billion
5. Total deposits increased 12.1% to \$447.62 billion
6. Total loans and acceptances increased 11.4% to \$329.18 billion
7. Total assets under management and administration increased 13.2% to \$879.05 billion
8. Total equity increased 15% to \$38.2 billion
9. Book value per share increased 18.6% to \$55.36
10. Adjusted efficiency ratio improved 260 basis points to 61%

#### 2. Its stock trades at inexpensive forward valuations

At current levels, Bank of Montreal's stock trades at just 10.1 times fiscal 2015's estimated earnings per share of \$6.80 and only 9.9 times fiscal 2016's estimated earnings per share of \$6.99, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.6 and the industry average multiple of 12.

I think Bank of Montreal's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$83.75 by the conclusion of fiscal 2016, representing upside of more than 21% from today's levels.

### **3. It has a 4.8% dividend yield and an active streak of annual increases**

Bank of Montreal pays a quarterly dividend of \$0.82 per share, or \$3.28 per share annually, which gives its stock a 4.8% yield at current levels, and this is significantly higher than the industry average yield of 2.5%. It is also very important to note that the company has increased its dividend for four consecutive years, and its increased amount of free cash flow could allow this streak to continue in 2016.

### **Should you add Bank of Montreal to your portfolio?**

I think Bank of Montreal will widely outperform the overall market going forward. Its strong earnings results in the first nine months of fiscal 2015 could support a continued rally, its stock trades at very inexpensive forward valuations, and it is both a high-dividend and dividend-growth play, which will amplify the potential returns for investors going forward. All Foolish investors should take a closer look and strongly consider establishing long-term positions today.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **TICKERS GLOBAL**

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

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### **Author**

jsolitro

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