



3 Reasons to Buy Bank of Montreal Right Now

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)), the fourth-largest bank in Canada and the eighth-largest bank in North America, has watched its stock rally over 5% in March, and I think it is headed significantly higher from here for three primary reasons. Let's take a closer look at these reasons to see if you agree and if you should take it one step further by initiating a long-term position today.

1. Its strong earnings results could support a continued rally

On February 23, Bank of Montreal announced better-than-expected first-quarter earnings results, and its stock has responded by rising over 6% in the weeks since. Here's a summary of eight of the most notable statistics from the report compared with the first quarter of fiscal 2015:

1. Adjusted net income increased 13.2% to \$1.18 billion
2. Adjusted earnings per share increased 14.4% to \$1.75, surpassing analysts' expectations of \$1.72
3. Adjusted revenue increased 2.1% to \$5.16 billion, surpassing analysts' expectations of \$4.92 billion
4. Revenue, net of insurance claims, commissions, and changes in policy benefit liabilities, increased 11.3% to \$4.79 billion
5. Total assets increased 4% to \$699.29 billion
6. Total deposits increased 9.6% to \$470.84 billion
7. Net loans increased 12.5% to \$345 billion
8. Book value per share increased 12.5% to \$59.61

2. It's undervalued

At today's levels, Bank of Montreal's stock trades at just 11 times fiscal 2016's estimated earnings per share of \$7.11 and only 10.6 times fiscal 2017's estimated earnings per share of \$7.45, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.4 and the industry average multiple of 13.2.

With the multiples above and its estimated 6.6% long-term earnings growth rate in mind, I think Bank of

Montreal's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$85 by the conclusion of fiscal 2016 and upwards of \$89 by the conclusion of fiscal 2017, representing upside of more than 8% and 13%, respectively, from today's levels.

3. It has a high and safe dividend with room for growth

Bank of Montreal pays a quarterly dividend of \$0.84 per share, or \$3.36 per share annually, which gives its stock a high and safe yield of about 4.3%.

Investors must also make two notes.

First, Bank of Montreal has raised its annual dividend payment for four consecutive years, and its recent increases, including its 2.4% hike in December 2015, has it on pace for 2016 to mark the fifth consecutive year with an increase.

Second, the company has a target dividend-payout range of 40-50% of its adjusted net income, so I think its very strong growth, including the aforementioned 13.2% year-over-year growth to \$1.18 billion in the first quarter of fiscal 2016, will allow its streak of annual dividend increases to continue going forward.

Does Bank of Montreal belong in your portfolio?

Bank of Montreal represents one of the best long-term investment opportunities in the market, so all Foolish investors who do not have exposure to the banking industry should strongly consider initiating positions today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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