Should Investors Buy Bank of Montreal?

Description

Unlike some of the other bank stocks, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) doesn't get a lot of coverage. I think part of the reason for that is because it is more of a business lender rather than a mortgage lender, which means people don't see it as often as one of the other big competitors in Canada.

However, I think its business-to-business nature is actually a positive for the company and, in turn, a positive for investors looking to get access to the financial markets without having to buy a mortgage bank.

BMO, which is releasing its quarterly earnings later today, had a pretty decent first quarter. Its adjusted net income rose to $1.18 billion, a 13.2% increase. Its adjusted earnings per share increased 14.4% to $1.75, which beat expectations by $0.03.

Part of the reason why BMO has been able to keep its earnings strong is because of its low exposure to energy loans. We'll find out more later, but at the end of Q1, it only had $7.4 billion in oil and gas loans on its book. I expect to see this number start rising, especially with oil prices starting to get stronger, but it's kept the bank safe while times were bad.

What's also helping the bank grow is its expansion into the United States. According to Crain's Detroit Business, Canadian regulators have wanted the banks to expand into U.S. markets, likely for diversification. In 2010, BMO acquired Marshall and Ilsley Corp., a Wisconsin bank.

More recently, BMO made a smart acquisition by purchasing the Transportation Division from **General Electric**, adding 13% to its loan book. Truck leasing is an incredibly lucrative business and is a pulse on how the economy is doing; if more trucks are being leased, we know the economy is strong. By acquiring this division, BMO gained 20% market share in the truck-leasing business, which should help the company acquire new loans for years to come.

BMO might be the perfect buyer of **Comerica Incorporated** (NYSE:CMA), a predominantly B2B bank headquartered in Dallas. Comerica is currently under fire from its investors, so the bank may have no choice to sell. And since there's no interest from New York banks, it may need to look north.

This is good news for BMO because it can easily absorb the $71.9 billion in assets. On top of that, Comerica is based out of Texas, which would give BMO huge exposure to the Texas oil fields just as oil prices are rebounding. That could have a significant impact on earnings. And finally, all of Comerica's earnings would be in U.S. dollars, which, if it remains strong, increases earnings for the bank when brought back to Canada.

All of this supports the ultimate reason to acquire BMO: its dividend. It pays a 4.04% yield, which comes out to $0.84 per quarter. It has paid a dividend without ever missing a payment since the early 1800s. As I said above, it reports its earnings this afternoon, and some analysts believe that there could be another dividend hike coming.

Whatever the case, BMO is in a solid position to continue growing and make smart acquisitions that will allow it to keep paying its investors lucrative yields. I say buy.

CATEGORY

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Date
2025/08/24
Date Created
2016/05/25
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