



Is Bank of Montreal a Buy After its Solid Q2 Results and Dividend Hike?

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)), the fourth-largest bank in Canada, announced its second-quarter earnings results and a dividend hike before the market opened on May 25, and its stock has responded by moving higher. Let's break down the quarterly report to determine if we should be long-term buyers of the stock today or if we should wait for a better entry point in the trading sessions ahead.

A quarter of top- and bottom-line growth

Here's a summary 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	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Adjusted Earnings Per Share	\$1.73	\$1.76	\$1.71
Revenue	\$5.10 billion	\$5.03 billion	\$4.53 billion

Source: *Financial Times*

Bank of Montreal's adjusted earnings per share increased 1.2% and its revenue increased 12.7% compared with the second quarter of fiscal 2015.

Its slight earnings-per-share growth can be attributed to its adjusted net income increasing 0.5% to \$1.15 billion, driven by 26.8% growth to \$279 million in its U.S. Personal & Commercial Banking (P&C) segment and 8% growth to \$525 million in its Canadian P&C segment, and its weighted-average number of diluted shares outstanding decreasing 0.4% to 645.3 million.

Its strong revenue growth can be attributed to its net interest income increasing 17.5% to \$2.42 billion, driven by 28.1% growth to \$876 million in its U.S. P&C segment and 4.9% growth to \$1.22 billion in its Canadian P&C segment, and its non-interest income increasing 8.7% to \$2.68 billion, driven by 37.4% growth to \$268 million in its U.S. P&C segment and 18.3% growth to \$1.25 billion in its BMO Wealth Management segment.

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

1. Revenue, net of insurance claims, commissions, and changes in policy benefit liabilities, increased 4.3% to \$4.69 billion
2. Total assets increased 7.6% to \$681.46 billion
3. Total deposits increased 4.8% to \$444.79 billion
4. Total net loans increased 12.2% to \$341.69 billion
5. Total common shareholders' equity increased 8.6% to \$39 billion
6. Book value per share increased 7.6% to \$55.57

Dividend hike? Yes, please

Bank of Montreal also announced a 2.4% increase to its quarterly dividend to \$0.86 per share, and the next payment will come on August 26 to shareholders of record at the close of business on August 1.

What should you do with Bank of Montreal's stock today?

It was a solid quarter overall for Bank of Montreal, and its dividend hike was icing on the cake, so I think the market reacted correctly by sending its shares higher. I also think the stock will continue higher from here and that it represents a great investment opportunity for the long term for two primary reasons.

First, it trades at inexpensive forward valuations. Bank of Montreal's stock trades at just 11.9 times fiscal 2016's estimated earnings per share of \$7.09 and only 11.3 times fiscal 2017's estimated earnings per share of \$7.45, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 12.6 and the industry average multiple of 13.2. These multiples are also inexpensive given its estimated 6.6% long-term earnings growth rate.

Second, it has a high dividend and is dividend-growth play. Bank of Montreal now pays an annual dividend of \$3.44 per share, which gives its stock a high and safe yield of about 4.1%. It's also important to note that the company has raised its dividend four times since the start of 2015, which puts it on pace for 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment.

With all of the information provided above in mind, I think Bank of Montreal is a strong buy. All Foolish investors should strongly consider making it a core holding.

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1. Editor's Choice

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