



Why Bank of Montreal Rallied 2% on Tuesday

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)), the fourth-largest bank in Canada, announced better-than-expected third-quarter earnings results before the market opened on Tuesday, August 23, and its stock responded by rising over 2% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if it could continue higher from here and if we should be long-term buyers of it today.

The results that easily beat expectations

Here's a summary of Bank of Montreal's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q3 2016 Actual	Q3 2016 Expected	Q3 2015 Actual
Revenue	\$5.63 billion	\$5.10 billion	\$4.83 billion
Adjusted Earnings Per Share	\$1.94	\$1.81	\$1.86

Source: *Financial Times*

Bank of Montreal's revenue increased 16.7% and its adjusted earnings per share increased 4.3% compared with the third quarter of fiscal 2015.

Its very strong revenue growth can be attributed to its net interest income increasing 11.1% year over year to \$2.47 billion, driven by 11.6% year-over-year growth to \$2.16 billion in its Personal & Commercial (P&C) Banking segment, and its non-interest revenue increasing 21.5% year over year to \$3.16 billion, driven by 35.3% year-over-year growth to \$1.62 billion in its BMO Wealth Management segment.

Its strong earnings-per-share growth can be attributed to its adjusted net income increasing 5.3% year over year to \$1.3 billion, driven by 7.4% year-over-year growth to \$851 million in its P&C Banking segment and 17.9% year-over-year growth to \$322 million in its BMO Capital Markets segment, but

this growth was partially offset by a 2.6% year-over-year decline to \$227 million 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 7.2% to \$4.94 billion
2. Total assets increased 2.9% to \$691.68 billion
3. Total deposits increased 4.5% to \$467.85 billion
4. Total net loans and acceptances increased 10.6% to \$364.13 billion
5. Total common shareholders' equity increased 5.3% to \$37.44 billion
6. Book value per share increased 4.9% to \$58.06

Dividend? Yes, please

Bank of Montreal also announced that it would be maintaining its dividend of \$0.86 per share in the fourth quarter, and the next payment will come on November 28 to shareholders of record at the close of business on November 1.

Should you be a long-term buyer of Bank of Montreal today?

It was a fantastic quarter overall for Bank of Montreal, so I think the market responded correctly by sending its stock higher. I am also still bullish on the stock for the long term for two fundamental reasons.

First, it's trading at attractive valuations. Bank of Montreal's stock trades at just 12.2 times fiscal 2016's estimated earnings per share of \$7.09 and only 11.6 times fiscal 2017's estimated earnings per share of \$7.43, both of which are inexpensive given the low-risk nature of its business model and its estimated 5.7% long-term earnings-growth rate. Considering it is such a low-risk investment, I think its stock could easily trade up to 15 times earnings.

Second, it has one of the best and safest dividends in the market. Bank of Montreal pays an annual dividend of \$3.44 per share, which gives its stock a high yield of about 4% at today's levels, and this dividend is easily covered by its earnings.

It also has the longest-running dividend payout record of any company in Canada. Its streak currently sits at 187 consecutive years, and it has grown its dividend at a compound annual growth rate of about 8% over the last 15 years. Its strong earnings growth could allow it to continue growing its dividend over the next several years, making it both a high-yield and dividend-growth play.

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

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1. Bank Stocks
2. Dividend Stocks
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