Bank of Montreal Had a Great Quarter: Time to Buy?

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) kicked off the sector's earnings season with a really strong quarter, providing a reminder that while there are concerns about its oil loans, the bank can still generate lucrative earnings.

It saw $5.63 billion in revenue for the quarter–up significantly from $4.83 billion a year prior. This, in part, led the company to earnings of $1.25 billion–up from $1.19 billion in the same period last year.

These strong earnings came from multiple divisions. In Canada, its personal and commercial banking saw 6% growth in its adjusted earnings. In the United States, its personal and commercial banking division saw net income up by 22%. And its Capital Markets division saw net income increase by 18%. All told, the different divisions have provided significant earnings for the company. The wealth management division was relatively flat with adjusted net income down $6 million year over year.

The only bad news for the company is that it increased its provisions for credit losses to $257 million from $201 million in the second quarter. However, this was offset with cost-cutting measures, which helped ensure that earnings weren't impacted.

And the reality is, oil and gas is still a very small part of the bank's total loan book: $7.6 billion, or 2%, is exposed to oil and gas. There's an additional $8.2 billion in undrawn exposure, but more than half of that is investment grade, leaving the bank secure. And going forward, it has seen nice growth in commitments to pipeline companies, which have weathered the storm far better than exploration companies.

On the Canadian mortgage side, it has a portfolio of $101.2 billion, of which 57% is insured. The loan-to-value ratio of the uninsured is 56%, which is a little risky. However, the 90-day delinquency rate is only 22 basis points, so the bank is in very good standing from a mortgage perspective. If that 90-day delinquency rate were to start rising, there might be concern, but it's expected that some mortgages will fail.

And analysts agree. Barclays analyst John Aiken wrote that they don't believe energy exposure is going to continue driving valuation like it has in the past. And, if other banks experience similar results, some of the headwinds that banks have been experiencing might disappear.

Because of its strong growth, the bank has committed to paying a dividend of $0.86 for the fourth quarter. While this is, unfortunately, unchanged from the previous quarter, it is a 5% increase year over year. And on the topic of dividends, Bank of Montreal has delivered a dividend to investors every year since 1829.

Let that soak in.

For 187 years, the bank has paid a dividend at least once every year to its investors. So you're in good hands if the 3.97% yield is what you're interested in.

Ultimately, the bank had a great quarter. Its earnings were up, its revenue was up, and it showed that its exposure to oil and gas is not as risky as investors had initially expected. As time goes on, I expect investor fears to go away, allowing this stock to continue appreciating in value. And with its exposure to the United States, it should continue to generate lucrative earnings like it did this quarter.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Investing

Date
2025/08/20
Date Created
2016/08/25
Author
jaycodon