3 Reasons I Like Bank of Montreal and 1 Reason I Don't

Description

Bank stocks have been a safe and predictable group of assets to own over the past few years with the valuations of the stock and dividends increasing quite handsomely. One bank I have consistently had my eye on is **Bank of Montreal** (TSX:BMO)(NYSE:BMO). There are many reasons why I like this stock, but there is also one reason why I'm hesitant about this stock.

1. Strong earnings

Despite not being talked about like some of its larger competitors, Bank of Montreal consistently delivers strong quarterly results that should please investors. On an adjusted basis, Bank of Montreal delivered net income of $1.295 billion or $1.94 per share. This was up 5% and 4%, respectively, year over year. And year-to-date, its adjusted net income of $3.625 billion is up 6% year over year.

This can be broken down into a few different divisions. In Canada, net income was up $5 million, or about 1%, year over year. Part of that is thanks to a 4% increase in loans and a 9% increase in deposits on the retail side due to a new mobile app that lets users open a bank account in minutes. On the commercial side, loan and deposit growth was 10% and 5%, respectively.

In the United States, its adjusted net income was up 22% to $289 million. A big reason for this increase in net income is thanks to a big acquisition, which accounts for approximately 15% of Q3 2016 revenue.

2. Growth through acquisition

The numbers are crystal clear. The U.S. has been a great area of expansion for Bank of Montreal, providing lucrative growth for the company. This started back in 1984 when Bank of Montreal bought Harris Bank, which gave it significant exposure to the Mid-West, southwest and Florida regions. Operating through that brand, Bank of Montreal has consistently made smart acquisitions to help it grow.

In July 2011, Bank of Montreal completed the acquisition of Marshall & Ilsley Corporation in a deal valued at US$4.1 billion, which helped BMO Harris effectively double in size. At the time of acquisition, it was Wisconsin's largest bank and had nearly US$50 billion in assets, so it gave BMO Harris more power.

And finally, BMO Harris made the smart decision to acquire the transportation finance business from **General Electric**. This division accounts for 20% of all lending done to the trucking sector in the United States and had net earning assets of US$8.9 billion at the time of acquisition. This acquisition generated a third of the U.S. bank's revenue.

3. Dividends

Bank of Montreal has paid a dividend every year since 1829. That's through Canadian independence, World War I, the Great Depression, World War II, and through every financial crisis since then. It has never missed its dividend.

Presently, it pays $0.86 per share, which is good for a 3.87% yield. While it was unchanged in the recent quarter, this is 4% higher than it was a year ago, so the bank has been increasingly it steadily.

My one problem…

My only problem with Bank of Montreal is that it's expensive. Banks saw a nice spike in price in November, and Bank of Montreal was no exception. Unfortunately, it now trades at a P/E ratio of approximately 13.25. While this isn't terribly high, historically, BMO has traded at a lower valuation. I would recommend waiting for Bank of Montreal to level out a little before buying it.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/23
Date Created
2016/11/29
Author
jaycodon