



Bank of Montreal: Time to Buy the Dip?

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) is down more than 10% since hitting all-time highs in early March.

Let's take a look at Canada's fourth-largest bank to see if this is an opportunity to add the stock to your portfolio.

Earnings

Bank of Montreal just reported fiscal Q2 2017 adjusted net income of \$1.29 billion, which was 12% higher than the same period last year.

Adjusted earnings per share rose 11% to \$1.92, and adjusted ROE for the quarter was 13.1% compared to 12.1% in fiscal Q2 2016.

On the surface, that looks like a pretty strong quarter, but the stock dropped 3% on the news.

What's going on?

U.S. stumbles

Bank of Montreal has a significant presence in the U.S. with about 600 branches primarily located in the Midwest states operating under the BMO Harris Bank name.

The American operation has delivered solid returns in recent years and is partly responsible for the huge rally in Bank of Montreal's stock price.

In the latest quarter, however, BMO reported a 7% drop in adjusted net income from the U.S. group.

Provisions for credit losses rose by US\$29 million to US\$68 million due to higher commercial provisions. Average net loans and acceptances dropped \$1.1 billion, or 2%, on declines in personal loan volumes.

Housing risks

The lofty Canadian housing market has some investors worried that a bursting of the bubble could hit bank shares hard.

Bank of Montreal finished fiscal Q2 with \$104 billion in Canadian residential mortgages. Insured loans represent 55% of the portfolio and the loan-to-value ratio on the uninsured portion is 54%.

This means house prices would have to fall significantly before Bank of Montreal takes a material hit. That scenario is worth considering, but most analysts predict a gradual reduction in home prices.

Dividends

Bank of Montreal just raised the quarterly dividend by two cents per share to \$0.90. That's good for a yield of 3.9%.

Investors should feel comfortable with the reliability of the distribution, as Bank of Montreal has paid a dividend every year since 1829.

Should you buy?

Based on the strength of the results, the sell-off appears to be an overreaction, but I would stay on the sidelines for now.

Why?

The entire Canadian bank sector remains in a negative trend, and while the 10% drop in Bank of Montreal's stock price since early March looks attractive, the shares are still up 11% in the past year.

Additional downside could be on the way, especially if the other banks come out with weaker-than-expected numbers.

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aswalker

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