

Bank of Montreal Is a Buy After a Strong Q3

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) released its third-quarter earnings this morning, which showed revenues down 3% from 2016, while net income of \$1.38 billion was up over 11%. Earnings per share of \$2.05 for the quarter were up from \$1.86 a year ago for an increase of 10%.

I will take a closer look at the bank's earnings to help determine if the stock is a good buy today.

Segment analysis

The company has four main segments, including personal and commercial banking, wealth management, capital markets, and corporate services.

Personal and commercial banking is where the company makes most of its money, and the Canadian division had net income totaling \$614 million, which was up 9% year over year; the bank says this is a result of higher balances and increases in non-interest revenue. On the U.S. side, net income was flat from the prior year for this segment.

The wealth management segment saw net income climb 32% from 2016, up to \$264 million for the quarter.

Capital markets saw a decline of 8% as net income dropped by \$25 million and corporate services had a loss of \$61 million, which was an improvement from the prior year's loss of \$111 million.

Dividend unchanged

Unlike other banks that have hiked dividends recently, BMO has opted to keep its dividend at \$0.90 per share. However, at a yield of about 4%, the bank's dividend rate is similar to most banks and, in some cases, even better. BMO has already hiked its dividend once this year, and that is consistent with its recent history. In the past four years, the bank has averaged one hike to start the year and another midway through. I would expect the next dividend increase to come in Q1; it will likely move up to \$0.92 if the pattern is to continue.

Stock performance

In trading this morning, the stock was down over 2.5% likely due to the decline in revenue along with the fact the bank did not increase its dividend. The stock has had a poor 2017 so far with the share price declining by almost 7% year to date. However, prospects remain strong for the company, and the stock should be due for a recovery as bank stocks as a whole have been struggling this year.

New products and services

In this past quarter, the company introduced its eBusiness Plan, which will offer small business customers a way to do banking via self-serve transactions. It also launched Android Pay, which will

make it easier for millennials and other smartphone users to use BMO credit and debit cards with a compatible device.

Bottom line

BMO might be a good option to buy today as the markets are being a bit harsh for a bank that had significant growth in earnings and beat its expectations. Although the company saw a slight drop in revenue, it has seen growth in its main segments. And investors should not have expected a dividend increase given that the bank's pattern for raising dividends clearly suggests one wasn't set to happen until Q1.

The more the stock declines today, the better the buy it is, and I would expect a recovery in the days following as the market corrects for the overreaction.

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