Why Bank of Montreal Is Down Over 2%

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO), Canada's fourth-largest bank, announced its third-quarter earnings results this morning, and its stock has responded by falling over 2% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or a warning sign to avoid it for the time being.

The Q3 performance

Here's a quick breakdown of 10 of the most notable financial statistics from BMO's three-month period ended on July 31, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Net interest income	$2,533 million	$2,474 million	2.4%
Non-interest income	$2,926 million	$3,159 million	(7.4%)
Total revenue	$5,459 million	$5,633 million	(3.1%)
Total revenue, net of claims, commissions, and changes in policy benefit liabilities (CCPB)	$5,206 million	$4,942 million	5.3%
Adjusted net income	$1,374 million	$1,295 million	6.1%
Adjusted earnings per share (EPS)	$2.03	$1.94	4.6%
Total assets	$708.62 billion	$691.68 billion	2.4%
Deposits	$473.11 billion	$467.85 billion	1.1%
Net loans and acceptances	$375.97 billion	$364.13 billion	3.3%
Book value per common share	$59.65	$58.06	2.7%

Should you buy BMO on the dip?

The third quarter was decent at best for BMO, but it posted a very strong performance in the first nine months of 2017, with its revenue up 5% to $16.61 billion, its adjusted net income up 15.8% to $4.2 billion, and its adjusted EPS up 14.8% to $6.22. With these two things being said, I think the weakness in its stock is warranted, but I also think it represents a great buying opportunity for long-term investors for two fundamental reasons.

First, it's undervalued. BMO's stock now trades at just 11.3 times fiscal 2017's estimated adjusted EPS of $7.97 and only 10.7 times fiscal 2018's estimated adjusted EPS of $8.39, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.8. These multiples are also inexpensive given its current earnings-growth rate and its estimated 5.5% long-term earnings-growth rate.

Second, it has a great dividend. BMO pays a quarterly dividend of $0.90 per share, equal to $3.60 per share annually, which gives it a lavish 4% yield. It's also important to note that its recent dividend hikes, including its 2.3% hike in May, have it on track for 2017 to mark the sixth consecutive year in which it has raised its annual dividend payment, and it has a target dividend-payout range of 40-50% of its adjusted EPS, so I think its very strong growth will allow this streak to easily continue into the late 2020s.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in BMO's stock to initiate long-term positions.

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