Dividend Investors: 3 Reasons to Buy and Hold Bank of Montreal Now

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) is under pressure these days more than any other large Canadian bank.

BMO stock is down over 4% in the past month, underperforming other lenders during the same period in an environment when investors are avoiding Canadian banks as the nation's real estate market cools and worries grow over the record debt load consumers are carrying.

Amid these concerns, investors largely seem to have ignored BMO's upbeat third-quarter earnings, which came in better than analysts' expectations.

BMO posted net income of $2.05 a share, up from $1.66 a share in the same period a year earlier. Adjusted earnings of $2.03, which accounted for a reversal in collective reserves, beat analyst estimates of $2.

BMO stock continued its downward journey, despite these positive earnings, as investors mainly focused on results from its U.S. operations which were flat for the quarter, mainly due to the appreciating Canadian dollar.

But despite this lukewarm response from some investors, I see an opportunity for long-term dividend investors who are looking to add a solid banking name to their portfolios. Here are the three main reasons why I like BMO stock.

Top dividend yield

With a dividend yield of ~4%, BMO stock has become attractive for long-term investors. This current yield is more than doubled the industry average, and it's backed by a solid track record.

There is no dearth of stocks that offer hefty dividends, but you'll think twice before committing your hard-earned dollar, as these dividends may not be time-tested. But BMO is the top dividend stock that you will be comfortable to have in your portfolio if its history has any relevance.

The company has sent dividend cheques to investors every single year since 1829 — one of the longest streaks of consecutive dividends in North America.

Attractive valuations

After about a 7% drop in its stock price this year, BMO stock's current and future valuations have become quite attractive.

At the share price of $90.50 at the time of writing, BMO is trading at a 10.8 forward P/E multiple, showing a significant discount when compared to the industry average.

Besides valuations, BMO is going to benefit from rising interest rates in Canada and the U.S. as it'll be able to make better margins on its saving products.

There is no doubt that the Canadian consumer is highly indebted, and the risk of a prolonged correction in the real estate market is still there. But it doesn't mean that BMO won't be able to generate a double-digit growth in its earnings. We've already seen that profits rose 11% in the third quarter, beating many analysts' expectations.

Long-term growth play

For long-term investors, BMO is a trusted name. Over the past 10 years, US$10,000 invested in BMO stocks now have more than doubled.

At the same time, the bank also rewards its investors with regular increases in the dividend. Over the past decade, BMO's dividend has nearly doubled.

If you're in it for a long haul, you should consider adding BMO stock to your portfolio, ignoring all of the market noise, which is keeping its share price depressed.

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