Is Bank of Montreal a Buy?

Description

The Canadian banks often come up as top picks when investors are searching for an anchor position to add to their portfolios.

Let's take a look at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) to see if it deserves to be on your buy list.

Operations

Bank of Montreal is attractive for the balanced nature of its revenue stream.

During fiscal Q2 2018, the Canadian personal and commercial banking segment generated 42% of adjusted net income, and U.S. personal and commercial banking added 21%. Capital markets activities contributed 19% and the wealth management group kicked in the remaining 18% of net income.

On geographic basis, Canada generated 66% of the profits, the U.S. contributed 26%, and other regions provided the remaining 8%.

Bank of Montreal's U.S. presence goes all the way back to the 1980s when the company purchased Harris Bank. Since then, the operations have grown through a series of additional takeovers, and the American division now operates more than 500 branches, primarily located in the Midwest.

Bank of Montreal is known for having a strong commercial banking business, which received a boost in 2015 when BMO Harris Bank bought GE Capital's Transportation Finance division.

The U.S. operations provide a hedge against a downturn in Canada and can add a nice boost to the bottom line when the American dollar strengthens against the loonie.

Risks

Bank of Montreal recently came under scrutiny when its direct-banking operation Simplii Financial revealed a cybersecurity attack that might have compromised client information on up to 90,000 accounts.

Whether or not the event will have an impact on Bank of Montreal's ability to secure new customers is tough to tell, but investors don't appear to be overly concerned. The stock initially dropped on the news, but quickly bounced back and even moved higher in the following days.

On the mortgage front, Bank of Montreal finished fiscal Q2 with $106 billion in Canadian residential mortgages on its books. Insured mortgages represent 48% of the portfolio and the overall loan-to-value ratio is 54%, so the market would have to get pretty ugly before Bank of Montreal gets into trouble.

The exposure is small compared to some of its peers. CIBC, for example, is a smaller company by market capitalization, but has more than $200 billion in mortgage loans.

Dividends

Bank of Montreal pays a quarterly dividend of $0.96 per share for a yield of 3.8%. The company has a compound annual dividend-growth rate of about 8% over the past 15 years.

Valuation

At the time of writing, the stock trades for 13 times trailing earnings, which makes it cheaper than TD, on par with Royal Bank and more expensive than Bank of Nova Scotia and CIBC.

Should you buy?

Bank of Montreal is not on sale, but the company might be a good pick right now given its low relative exposure to the Canadian housing market and the balanced revenue stream with significant earnings coming from the United States. You might call it the Goldilocks choice among the big banks right now.

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