Is Bank of Montreal (TSX:BMO) the Best Bank Stock to Own Right Now?

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) stock failed to generate the kind of capital gains investors were used to in 2017. This year has been a different story. BMO has established itself as one of the premier Canadian bank stocks, even in the midst of trade tensions that have seemingly put a cap on gains for its peers.

I have advocated for buying BMO stock in the months of March and June on the strength of its earnings and its attractive valuation in comparison to other top bank stocks. Shares are up over 10% since the stock reached its bottom in 2018 in mid-April. Should investors expect this run to continue, or is it time to take profits?

BMO released its last round of earnings on May 30. In the first six months of 2018, the bank reported a 19% year-over-year decline in net income to $2.21 billion. This drop was due to a revaluation of its U.S. net deferred tax assets after a restructuring charge. BMO was not alone, as its peers were also hit with a one-time charge following the passage of the U.S. Tax Cuts and Jobs Act. Adjusted for this charge, BMO profit was up 2% from the prior year to $2.88 billion. Adjusted earnings per share were also up 3% to $4.31.

Like its peers, BMO earnings have also been bolstered by improved margins. Its U.S. earnings were particularly impressive, powered by the passing of tax reform south of the border. Adjusted net income in U.S. Personal and Commercial banking climbed 43% year over year to $359 million. The total benefit from U.S. tax reform amounted to $25 million in adjusted net income.

BMO is set to release its third-quarter results in late August. The Canadian and U.S. economies have strengthened in this period, and this has triggered more rate tightening from their respective central banks. The Bank of Canada moved ahead on its second rate hike in July and the U.S. Federal Reserve did the same in June. GDP growth hit 4% in the third quarter in the United States, while Canada reported GDP growth of 0.5% in May.

There are still hurdles for BMO and its peers. The Canadian housing market has stabilized this summer, but year-over-year sales are still down from a year ago. The top banks warned in the second quarter that mortgage loan growth would slow in the second half of 2018. Fortunately, higher interest rates should result in improved margins across the board, which will mitigate the pullback in credit issued.

Is BMO still worth a hold ahead of its third-quarter earnings release?

Canadian bank stocks are still a strong hold for the rest of 2018. Strong economic performance in North America and higher margins should boost earnings for the remainder of this fiscal year. BMO is still worth holding in August and also offers a quarterly dividend of $0.93 per share.

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Author
aocallaghan