BMO (TSX:BMO) Is a Great Canadian Banking Stock to Buy After Rising Profits

Description

Overall, it has been a great earnings season for Canadian banking, with profits boosted by strong performances south of the border as well as investment banking seeing rises helped by improved trading revenues. Long gone are the days of the financial crisis, as Canadian banks have truly solidified their reach and conquered new markets. The Big Six are back, dominating headlines and buoying the TSX index.

Let's look at one Canadian banking stock that has had a particularly strong Q3 and go through its market fundamentals to see whether it gets the thumbs up for value investors as well as for those looking to add some passive income to their savings accounts or RRSPs.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

Overvalued by about $2 a share compared to its future cash flow value, Bank of Montreal is reasonable value today, with clean market ratios, such as a P/E of 15 times earnings, being more or less exactly where they should be. This is a quality stock, and one that anyone looking to Canadian banking for stability and a passive income should consider adding to their investment portfolio.

A PEG of 1.3 times growth is not so bad, while a P/B of 1.7 times book is higher than the industry but should not be considered necessarily as off-puttingly bad value. These multiples are more or less in line with the Canadian banking industry and indicate that this is a stock you can put your trust in. An 11.8% expected annual growth in earnings shows that there is still more leg room for Bank of Montreal, while a dividend yield of 3.58% makes this one to stash in your TFSA, RRSP, or RRIF.

American customers are driving Canadian banking profits

Strong performance in the U.S. is adding value to Canadian banking stocks at the moment. Compare Bank of Montreal's market ratios and other figures with **TD Bank's** (TSX:TD)(NYSE:TD) for instance. You will see that post-earnings TD Bank is looking not dissimilar to Bank of Montreal, and this is in large part due to its earnings performance and outlook, itself driven partially by business in the U.S.

TD Bank's P/E ratio is, like Bank of Montreal's, a little rich for a domestic banker at 14 times earnings but likewise beats the TSX index. TD Bank has a higher PEG ratio of twice growth and a matching P/B ratio of twice book value. TD Bank is also looking at a lower expected annual growth in earnings than Bank of Montreal, with only 7% forecast. In terms of payouts, TD Bank also comes in lower than Bank of Montreal, with a current dividend yield of 3.38%. All told, Bank of Montreal is looking like the stronger pick if you're only picking up one Canadian lender today.

The bottom line

It's not just the market fundamentals that are similar for the two stocks; it's also the source of all that new income: the United States. While TD Bank can thank the U.S. for its +30% earnings hike stateside, Bank of Montreal also has a strong performance in America to thank for its cheerful Q3 boost in profits. Both stocks are a buy today and will add stability, income, and peace of mind to your investment portfolio.

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