

Here's Why Expansion-Hungry BMO (TSX:BMO) Stock Is Only a Moderate Buy

Description

Expansion-hungry banking institutions are no strangers to the TSX index of late, though **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) hit the headlines this week with an especially ambitious push to gain one million more Canadian personal banking customers, and increase its proportion of U.S.-based earnings to a third. Let's really pull the data apart for this stock and see whether it's a buy ahead of this proposed market share conquest.

Is it defensive?

Big stocks are usually a good place to hide when the going gets rough: [BMO](#)'s market cap of \$64 billion certainly fits the bill. A one-year past earnings contraction by 9.5% and low five-year average past earnings growth of 5% doesn't sound fantastic, but BMO stock hits nice and steady with a low PEG of 1.1 times growth and an acceptable proportion of non-loan assets.

A considerable volume of shares was inside-sold in the last three months, while no inside buying data is visible for the past 12-month period; competitors include the rest of the Big Five banks, so this ticker is in good company. So far so good – now let's see if it's a buy.

This Big Five stock is good value today

Buying stock in BMO today will lock in value that is confirmed by a raft of decent multiples, such as a P/E of 13.3 times earnings and P/B of 1.6 times book. Using a stock screening technique I put together over the summer, I sometimes throw in a stocks dividend yield to round out its valuation for long-term passive income investment purposed; today's price for BMO stock will return a yield of 3.88%.

In terms of quality, BMO had a ROE of 11% last year, and its most recent EPS was a decent \$7.3. A 12.6% expected annual growth in earnings goes into the pot to make a tasty quality stock. Momentum is a bit mixed for BMO stock at present, and is skewed by the multi-channel October sell-off: it shed 4.66% in the last five days, though its beta of 0.88 indicates low volatility, and its share price is discounted by 9% compared to its future cash flow value.

Is BMO stock a buy, hold, or sell?

It's possible to calculate a percentage using the three factors of value, quality, and momentum. Good price-per-earnings and price-per-book value ratios give a strong result here, while that dividend is acceptable and defensive. Quality is let down a little by that mediocre ROE, while momentum is brought up by that sudden drop in share price. Altogether, a quick calculation using a 33%-per-factor weighting gives 59% overall: only a moderate buy.

The bottom line

Putting this stock through a screening tool came back with some interesting findings: I would have expected BMO to be a [stronger buy](#), but a lack of volatility and low ROE let the side down. Oddly, a

drop in share price is probably what tipped the balance toward a buy signal. This shows that using momentum as a buy/sell indicator can be misleading – or rather, that market-wide selloffs can skew data and make stocks look more (or less) attractive than they should be.

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