Should You Buy Bank of Montreal's (TSX:BMO) Stock Before Earnings?

Description

We are in the midst of bank earnings season. So far, four of Canada's Big Five banks have reported earnings. The results thus far have been decidedly mixed. **Canadian Imperial Bank of Commerce** and **Bank of Nova Scotia** both missed on the top and bottom lines. **Royal Bank of Canada** beat on earnings, but missed on revenue. The only bank to beat on both the top and bottom lines is **Toronto-Dominion Bank**. This isn't surprising, as I consider TD Bank to be Canada's best.

Next up, the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is scheduled to report earnings before the bell on Tuesday, December 4. Analysts expect the company to post earnings of $2.30 per share and revenue of $5.670 billion. Should investors buy BMO's stock before earnings?

BMO's stock valuation

Like most financials, Bank of Montreal's stock has taken a hit this past quarter. Its share price is down 7.6% over the past three months and 1.23% year to date. Despite weakness, its performance over the one and five-year time frames has been second only to Toronto-Dominion Bank.

Thanks to the recent downtrend, the company is currently trading at attractive valuations. Its current price-to-earnings (P/E) ratio of 12.3 is the cheapest the bank has been in almost a year. Likewise, its forward P/E of 10.29 hasn't been this low since early 2016.

As mentioned in one of my previous articles, one of the simplest ways to know when to buy Canada's Big Five is to compare them against historical averages. Once they dip below historical P/E ratios, they always revert to the mean. Based on 2018 estimates, once it bounces back and trades in line with past averages, its stock price will be approximately $107.00. That's 8% upside using this simple strategy.

If that weren't enough, analysts have an average one-year price target of $129.07 on its stock, which implies 30% upside from today's price.

What else is there to like about BMO's stock?

Outside of an attractive valuation, Bank of Montreal has a few tailwinds in its favour. For starters, it has been aggressively expanding south of the border. The number of opportunities the bank has in the U.S. will help mitigate any slowdown in Canada's domestic market.

As well, the bank recently entered Canada's Exchange Traded Fund (ETF) market. There is no doubt it will gain share in the growing passive investment market.

Canada's Big Banks have been weighed down by the bearish sentiment surrounding Canada's housing market. However, did you know that Bank of Montreal has the lowest exposure to Canada's housing market among its peers? This alone warrants a premium, and is one of the reasons it has outperformed the majority of the Big Five.

Finally, Bank of Montreal is also expected to raise dividends. It's the only one of Canada's big banks that will have announced a raise this quarter.

Foolish takeaway

Bank of Montreal is currently trading at attractive valuations. It has a few unique characteristics that set it apart from the other large banks and has one of the highest expected growth rates. Bank of Montreal is a buy.

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