



## Time to Buy Bank of Montreal (TSX:BMO) Before Earnings?

### Description

Bank investors have been a bit on edge this bank earnings season.

A ton of short-sellers have had Canada's big banks under their crosshairs of late, including the legendary Mr. Big Short himself in Steve Eisman, who identified three Canadian banks to bet against as they navigate through the credit cycle.

**Bank of Montreal** ([TSX:BMO](#)) ([NYSE:BMO](#)) was not one of the three on Eisman's list, and although the bank may not be as "ill-prepared" as some of its more vulnerable peers, all eyes will be directed toward BMO on May 29 as it steps up to the plate in a second quarter that's been plagued with higher expenses and provisions for credit losses (PCLs).

Fellow Fool contributor Matt Smith seems to think that [Eisman and other shorts](#) are wrong to bet against Canada's banks, touting their high-quality credit portfolios that were "underscored by their low gross impaired loan ratios," with BMO's being at 0.48% at the time Smith's piece was published.

"These ratios are well below the level required to indicate there are issues with credit quality and illustrate that it would take a substantial, if not unimaginable volume of defaults to seriously damage what are sound, high-quality balance sheets," said Smith. "Because of stricter prudential standards, all of Canada's major banks are more than adequately capitalized with common equity tier one capital (CET1) ratios well in excess of the regulatory minimum."

I'm parting with Smith and many other Fools who aren't buying the bear theses that shorts, Eisman included, have been selling of late. There's no "doomsday" scenario that's unfolding before our eyes, as some of the more bearish folks out there are "warning" investors of in the mainstream financial media. While some banks are more at risk of correcting than others, don't think that the next phase of the credit cycle will bring for a scenario that's comparable to what happened in 2007-08.

The banks are far better capitalized than the shorts believe, especially BMO, which has continued to roar over the last year in spite of the macro headwinds that have been common to Canada's top financial firms. Although I don't think BMO will drop the ball in the second quarter as many shorts hope it will, I do believe the bar is a bit high, and the stock isn't a "steal" as some of its peers are.

The U.S. and wealth management segments will likely more than offset any weakness experienced in the domestic business, but I can't say I'd be one to back up the truck before earnings. The stock trades at 10.8 times next year's expected earnings and 11.73 times trailing earnings, 1.5 times book, and 2.8 times sales, all of which are just a tad lower than the five-year historical average multiples of 12.5, 1.6, and 2.9, respectively.

You're essentially paying [fair value for a wonderful and robust business](#), which is definitely not a bad thing. While BMO isn't my favourite bank at today's valuations, it can't hurt to initiate a small position before the release of the Q2 results.

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