



Beat the Market With This Big Bank Stock

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) reported its fiscal second-quarter results in the past week. The stock has dipped about 3.6% since then.

The [bank stock is an excellent buy](#) today, as it offers a safe 4.1% yield, trades at a discounted valuation, and offers market-beating total returns potential.

BMO's Q2 results

For fiscal Q2 that ended April 30, BMO reported net revenue growth of 8% to \$5.6 billion, adjusted net income growth of 4% to \$1.5 billion, and adjusted earnings per share (EPS) of \$2.30, up 5% over the same quarter in the prior year. The bank's capital position remains pretty strong with a common equity tier 1 ratio of 11.3%.

BMO's year-to-date results

Looking at results over a longer period gives a clearer bigger picture. In the first half of the fiscal year, BMO reported net revenue growth of 7% to \$11.2 billion, adjusted net income growth of 6% to \$3 billion, and adjusted EPS of \$4.62, up 7%, against the same period a year ago.

Adjusted ROE was 13.9%, down from 14.4% a year ago. That's not too alarming as long as the bank keeps a teens ROE. Provision for credit losses was \$313 million, up 4% year over year compared to loan growth of more than 12%, thereby suggesting that BMO has a prudent lending practice.

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Safe dividend

BMO has [a long history of paying safe dividends](#). Even during the last financial crisis, it was able to maintain its dividend. Management aims to pay out 40-50% of earnings as dividends. This year, the payout ratio is only estimated to be about 42%, which is at the low end of the range.

Currently, the bank is estimated to grow EPS by about 6% per year over the next three to five years. Combining a low payout ratio with earnings growth, it's within reason for the bank to deliver dividend growth that will be slightly higher than its actual earnings growth over the period.

The bank just increased its quarterly dividend to \$1.03 per share, 7.3% higher than it was a year ago and implying an annual payout of \$4.12 per share and a safe yield of 4.1% at the current quotation.

Foolish takeaway

At about \$99.30 per share as of writing, BMO stock trades at a blended price-to-earnings ratio (P/E) of about 10.6, while its long-term normal P/E is 11.6.

Buyers today can expect an estimated return of about 10% from the dividend and earnings growth. Should the stock experience a P/E multiple expansion to a normalized level, investors today can experience total returns of about 12% per year over a five-year period. What a fabulous return to get from a safe, blue chip stock!

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