



Is it Time to Buy This Canadian Banking Giant?

Description

Canadian banks have come under considerable pressure in recent years, as the housing market cools and stricter banking regulations have curtailed growth opportunities. While there are headwinds ahead for the big banks, they shouldn't deter investors. One often overlooked Big Five institution is **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), especially with Canada's second-largest lender **Toronto-Dominion Bank** being the [go-to stock](#) for investors seeking U.S. exposure.

Solid results

Over the last decade, the bank has invested in expanding its U.S. business with a focus on growing is capital markets and equity trading business south of the border. This strategy was initiated to boost Bank of Montreal's growth prospects and minimize the impact of the headwinds in Canada, which have curtailed growth domestically.

By the second quarter 2019, U.S. personal and commercial banking was responsible for 27% of Bank of Montreal's net income compared to 19% two years earlier. Net income for that division rose by an impressive 17% year over year to \$406 million and was almost double the \$239 million reported for the same period in 2017.

Bank of Montreal's total U.S. segment contributed 35% of the bank's total adjusted net income. Overall adjusted earnings for the bank's U.S. segment grew by 29% year over year because of the strong performance of retail and commercial banking as well as the U.S. segment of its capital markets operations.

Importantly, credit quality for Bank of Montreal's U.S. banking business is improving.

By the end of the second quarter, the bank's impaired loans ratio had fallen by 0.09% year over year to 0.88%, while provisions for credit losses were \$23 million, or less than half the \$54 million reported a year earlier.

Bank of Montreal's overall second-quarter performance was solid. Bank-wide adjusted net income rose

by 4% year over year to \$1.5 billion, despite a weaker performance from its capital markets operations and flat earnings from wealth management. That can be attributed to the strong earnings growth reported for Bank of Montreal's U.S. retail and commercial banking operations.

Even the headwinds impacting the Canadian economy didn't prevent the domestic retail and commercial banking division reporting an almost 5% increase in adjusted net income.

Bank-wide credit quality remains strong. By the end of the second quarter, Bank of Montreal reported a gross impaired loans (GILs) ratio of 0.53%, which was 0.03% lower than the same period in 2018. Such a low GIL ratio indicates that it would take a tremendous increase in impaired loans to impact Bank of Montreal's balance sheet and the viability of its credit portfolio.

It should also be noted that 44% of Bank of Montreal's Canadian residential mortgage portfolio is insured. This forms an important backstop should an external economic shock, such as a full-blown U.S. China trade war, cause the global economy to fall into recession. The uninsured proportion of Bank of Montreal's mortgage portfolio has a conservative loan-to-valuation ratio of 51%, indicating that there is plenty of room to move should the domestic economy decline significantly.

Foolish takeaway

Bank of Montreal reported some credible second-quarter 2019 results, which indicate that the bank is not only capable of further growing earnings but is capable weathering any economic downturn in solid shape. The bank's ongoing focus on expanding its U.S. operations, notably wealth management, commercial banking, and capital markets will act as an important driver of growth.

Like its Big Five peers, Bank of Montreal is investing in range of digital initiatives to improve its IT infrastructure and customer experience, while reducing costs and making its operations more efficient. This profitability will support additional earnings growth. While investors wait for this to translate into a higher market value, they will be rewarded by its sustainable and steadily growing dividend yielding a juicy 4%.

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Date

2025/09/28

Date Created

2019/06/25

Author

mattdsmith

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