



Should You Buy Bank of Montreal (TSX:BMO) Stock?

Description

The Canadian banks are often cited as top picks for a balanced portfolio, but a wave of negative sentiment hit the sector late last year, and while most of the stocks have recovered, investors are wondering if the [banks](#) are still good bets.

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) is often overlooked. It is Canada's fourth-largest bank, so people usually focus on its three larger peers. Let's take a look at the company to see if it might be an interesting pick right now.

Earnings

Bank of Montreal reported fiscal Q2 2019 adjusted net income of \$1.5 billion, representing a 4% increase over the same period last year.

The Canadian personal and commercial banking group performed well in a challenging environment with net income rising 5%, supported by solid loan growth and rising deposits in both sides of the operations. Bank of Montreal is known for being particularly strong in the commercial segment.

Bank of Montreal's capital markets group saw net income slip in the quarter compared to Q2 2018 primarily due to a jump in expenses connected to an acquisition.

Wealth management net income increased 3% year over year in the quarter. Assets under management increased 6%.

The U.S. operations are of particular interest. The bank's personal and commercial banking segment south of the border saw adjusted net income rise 12% supported by solid loan and deposit growth.

The company has had a strong U.S. presence since the 1980s, and the country now accounts for more than 30% of adjusted net income. This provides a nice hedge against downturn in Canada and gives investors good exposure to the U.S. through a Canadian stock.

Dividend

Bank of Montreal is Canada's oldest bank and has the sector's longest-running [dividend](#). The company has given shareholders a piece of the profits every year since 1829, and that trend should continue.

The board recently raised the quarterly dividend again, bumping it up \$0.03 per share to \$1.03. That's a 7% gain in the past year. At the time of writing, the stock offers a yield of 4.2%.

Valuation

The current stock price of \$99 puts the multiple at an attractive 10.5 times earnings. The stock still isn't as cheap as it was in late December when it dipped below \$87, but it should be a good value at this level.

Risk

The Canadian and American economies are in decent shape, but a downturn is inevitable and extended weakness in the U.S. would hit the American operations and put pressure on the stock.

Overall, Bank of Montreal is well capitalized with a CET1 ratio of 11.3%, so it can easily weather a rough patch at home or in the United States.

Should you buy?

Bank of Montreal is a solid buy-and-hold pick, and dips in the stock have historically proven to be good buying opportunities.

Investors might want to start nibbling and look to add to the position on any further weakness.

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