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

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) just reported fiscal Q3 earnings that missed analyst expectations.

The stock fell as much as 4% on the news, extending a downward trend that has hit the broader banking sector in the past three months.

Let's take a look at the current situation to see if the pullback is an opportunity to buy or a signal to stay on the sidelines.

Slowing growth

Bank of Montreal reported adjusted net income of $1.58 billion, or $2.38 per share, for the quarter ended July 31 compared to $1.57 billion, or $2.31, in the same period last year.

The market had anticipated earnings of $2.49 per share, which is why the stock took a hit.

Bank of Montreal has a large U.S. presence with more than 500 branches primarily operating in the Midwest United States. The commercial banking group is particularly strong in the United States, as it is in Canada, and this part of the businesses remained the highlight for the quarter with 9% "pre-provision, pre-tax" profit growth.

Wealth management profits slid from $291 million in Q3 2018 to $249 million. BMO said the drop was due to lower profits in its insurance business.

Capital markets earnings improved from $301 million to $313 million. This segment tends to be more volatile at all the banks. Results often vary widely from quarter to quarter.

Troubled borrowers

One common item that appears to be showing up across the Canadian banks as they report results is a trend in higher provisions for credit losses (PCL). This is worth watching as it could signal the beginning of larger trouble if highly leveraged Canadians are starting to fall behind on their debt payments.

Bank of Montreal reported provisions for credit losses of $306 million compared to $291 million for Q3 2018. Impaired loan PCL rose to $243 million from $177 million primarily due to higher provisions in the Canadian personal and commercial banking segment. PCL on performing loans jumped to $63 million from just $9 million in the same quarter last year.

Risks

The ongoing trade battle between the United States and China could push the American economy into a recession. This would eventually hit Canada.

Any increase in unemployment could trigger a wave of defaults on credit card loans, as people will likely pay the rent and their mortgage first. However, homeowners that rely heavily on two incomes could also find it difficult to cover large mortgages, and if enough people are forced to sell their homes, the housing market could tumble.

An extended downturn would likely result in a significant jump in PCL at Bank of Montreal and its peers.

Dividend

Bank of Montreal held its quarterly dividend at $1.03 per share. That’s 7% higher than the same quarter last year due to earlier hikes. At the time of writing, the distribution provides a yield of 4.6%.

Should you buy the dip?

Bank of Montreal trades at $89 per share compared to the 2019 high above $106. The recent pullback is challenging the 2018 low around $86, and it wouldn’t be a surprise to see a slide toward $80 in the coming weeks if the broader equity markets continue their recent correction.

However, at roughly 10 times trailing earnings, Bank of Montreal now appears cheap, and you get paid well to wait for better days. Buy-and-hold investors might want to start nibbling if the stock slips below $85.

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