Canadians Shouldn't Overlook This Bank Stock, Despite a Mixed Q3

Description

After a third-quarter earnings miss that saw its stock ditch a few percentage points, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is a buy for investors who recognize quality and seek value. Banking has been taking a beating of late, creating value opportunities for investors who have been waiting to back up the truck. With profits flat, though, TSX investors will have to decide whether BMO is a solid choice, even at its discounted valuation.

U.S.-generated growth helped buoy a flat quarter

BMO has a solid footing in the U.S., and much like its Big Five rival **TD Bank**, it has been drawing on this for growth. Indeed, this arm of BMO's North American operations grew profits by an impressive 9% in its Q3. However, a footing in the U.S. may not be enough. Loan losses were an issue for BMO this time around, which raises the risk for investors keen to lock in long-term wins in their dividend portfolios.

Indeed, long-range stockholders going through BMO's Q3 with a fine-toothed comb may have noticed that provisions for bad loans increased by more than 60% on last year, suggesting three worrying things: first of all, that hard times may be on the way, with market stressors of every stripe gathering on the horizon; secondly, that loan delinquency may already be an issue; and thirdly, that BMO was perhaps not already sufficiently able to deal with either contingency.

BMO is one of Canadian banking's defensive heavyweights

Now let's look at the reasons to buy. The stock overall is healthy, with a decent track record and solid balance sheet, and sells at an attractive price with a tasty dividend yield. While its outlook might not be as grandiose as those of other areas of the TSX, its expected returns are in line with the Canadian banking industry at around the 10-15% mark.

BMO pays a yield of 4.63%, which isn't the highest among its Bay Street buddies but is certainly attractively high. To put this in context, the bottom 25% of Canadian dividend stocks pay around 2%, while the top 25% of passive-income stocks shell out almost 6%. BMO's dividend is also well covered by earnings and will be for at least the next three years. Looking back over the past 10 years, payments have not only remained stable but have also grown.

Anyone looking at management will be pleased to know that BMO's management team and board of directors are suitably seasoned, with the average tenure of both being between eight and nine years. Investors looking to keep risk as low as possible should be looking to banks with strong and experienced leadership, especially if a low-maintenance, buy-and-forget portfolio is the order of the day.

The bottom line

At the end of the day, BMO makes a moderately strong addition to a dividend portfolio, though the slowdown in profit growth and bad loan coverage is clipping its wings. If investors are concerned about risk, it should be noted that BMO is about as volatile as any other Canadian banking stock and that safer asset classes can be found in precious metals and utilities. In short, add bankers for stable dividends, but expect low growth and a little nail-biting.

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Date
2025/09/22
Date Created
2019/08/30
Author

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