Why Bank of Montreal (TSX:BMO) Stock Price Fell 8% in August

Description

It's a widely known fact: Canada's Big Banks are among the most held investments in the country. Canada's banking system is one of the best in the world and has enriched investors time and time again.

Banking sector investments are steady and reliable, and there are very few events that can move the needle in any significant way. One of those events is quarterly results.

As is the norm, Canada's big banks always report earnings within a week or two of each other. The latest two-week span came in mid-to-late August when they reported 2019 third-quarter results.

As a group, earnings were mixed. Individually, it was a different story, and unfortunately for **Bank of Montreal** (TSX:BMO)(NYSE:BMO) investors, it is the main reason why BMO's share price fell by 7.68% in August.

Trailing the pack

Over the past five years, Bank of Montreal has been one of the best performing banks in the country. In fact, its five- and 10-year returns were second only to **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

It is therefore surprising that Bank of Montreal posted the worst third-quarter results among its peers. It was the lone bank to miss on both the top and bottom lines. Earnings of $2.38 per share missed by $0.11 and revenue of $5.78 billion was $40 million lighter than expected.

Why was this important? It marked the first time since the fourth quarter of 2014 that the bank missed earnings and revenue estimates.

The miss led to its share price losing 3.43% of its value the day of earnings. As mentioned previously, very few events lead to big price moves at the big banks. The loss was the largest single-day drop of the year for Bank of Montreal. It's also the biggest reason why it underperformed all its peers in August.

Beyond the headlines

Looking past the headlines, it was a mixed quarter for the company. Earnings were essentially flat year over year as provision for credit losses (PCL) took a toll. PCL for the quarter ended July 31, 2019 was $619 million, up 27% from $487 million a year earlier. The jump was notable and among the highest in the industry.

According to CEO Darryl White, higher PCL is no reason for concern: "While provisions for credit losses increased this quarter from very low levels, overall credit quality remains strong." While this may be true, it is certainly a trend worth monitoring.

The bank's Personal & Commercial banking segments inched out 1% growth in adjusted net income on both sides of the border. Finally, BMO was not immune to the industry trend, whereby its Wealth Management segment struggled. Adjusted net income of $257 million dropped 14.6% over the third quarter of 2018.

Foolish takeaway

Poor third-quarter results and the subsequent drop in share price is a buying opportunity for investors. Despite a challenging quarter, however, Bank of Montreal is still among the best in the industry. One quarter of underperformance does not make a trend.

In fact, analysts are now beginning to issue buy signals. The latest courtesy of Veritas Investment Research upgraded the bank to a "buy" from a "sell" on the basis of a discounted relative valuation opportunity.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/28
Date Created
2019/09/11
Author
mlitalien