Bank of Montreal (TSX:BMO): Too Cheap to Ignore — Now's the Time to Buy!

Description

It's been a difficult year to date for investors in Canadian banks, with many failing to perform as strongly as anticipated because of a range of headwinds that have impacted earnings growth and weighed on their stock.

One of the worst-performing among the Big Six banks has been **Bank of Montreal** (TSX:BMO)(NYSE:NBMO), which has gained paltry 9% since the start of 2019 compared to **National Bank of Canada's** stunning 18% increase.

Bank of Montreal appears too cheap to ignore, making now the time to buy despite its mixed third-quarter 2019 results.

A challenging environment

Bank of Montreal's reported net income was relatively flat compared to a year earlier, rising by a mere 1% to $1.6 billion, although total revenue shot up by 15% to $6.7 billion on the back of strong credit growth, notably for commercial loans.

The bank also reported a disappointing return on equity of 13.2% for the period, which was 1.5% lower than a year earlier, thus indicating that it's struggling to deliver value for investors.

An appealing aspect of Bank of Montreal is its U.S. business, giving it exposure to a U.S. economy, which is growing at a faster clip than Canada's.

For the second quarter 2019, U.S. gross domestic product (GDP) expanded by the annualized equivalent of 2.1% or more than double the 0.9% reported by Statistics Canada for that period.

By the end of the third quarter, Bank of Montreal's U.S. business was responsible for generating around a quarter of its total net income, although net income for its U.S. business remained flat year over year, at $368 million.

Nonetheless, Bank of Montreal reported strong growth for its U.S. commercial lending operations. Third quarter 2019 commercial loans grew by 16% year over year, while commercial deposits shot up by a healthy 19%, indicating significant earnings growth ahead.

Wealth management is becoming an important growth driver for Canadian banks because of a softer housing market and lower demand for mortgages.

However, Bank of Montreal's wealth management business reported a disappointing third quarter 2019. Net income plunged by 14% year over year to $257 million, which can be blamed on a decline in fee-based revenue due to volatile financial markers sparking greater nervousness among investors.

While provisions for credit losses spiked by an unhealthy 65% year over year to $306 million, Bank of Montreal's gross impaired loans ratio rose by just 0.02% to a modest 0.55%, indicating that it has a high-quality credit portfolio. The bank is also well capitalized with a common equity tier one capital ratio of 11.4%.

Foolish takeaway

Bank of Montreal's mixed third quarter 2019 results and the difficult operating environment coupled with a softer housing market highlight why the bank has fallen into disfavour with investors and is now the most fourth most shorted stock on the TSX.

There are signs, however, that Bank of Montreal is cheap, with 10 times forward earnings and a modest 1.4 times its book value, making now the time to buy. While patient investors wait for Bank of Montreal's stock to appreciate, they'll be rewarded by its sustainable dividend yielding a juicy 4%.

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