Bank of Montreal (TSX:BMO) Is a Dividend Dog to Buy Right Now

Description

The pessimism surrounding the Canadian banks has become overblown beyond proportion. With a tonne of headwinds that go beyond those caused by the coronavirus (rock-bottom interest rates and the Canadian credit downturn) for investors to worry about, it can seem pretty nuts to buy the banks before what's probably going to be a hideous earnings season.

Has the typhoon of headwinds made the Canadian banks uninvestable?

Steve Eisman, the man behind *The Big Short*, has done quite well for himself by shorting Canada's top banks. And while he's still bearish on them in the face of this pandemic, I do not view the Canadian banks as uninvestable, even with the large number of issues that have become too numerous to keep track of.

The Canadian banks may be navigating through the worst typhoon since the Great Recession. But unlike the events that unfolded over 12 years ago, the Canadian banks are in far better shape to weather the storm this time around. They're ridiculously well capitalized, and given they're not at ground zero of this crisis, I think the damage that's already been done has been overblown.

The coronavirus, oil's catastrophic implosion, near-zero (and potentially soon-to-be-negative) interest rates, and the winding down of Canada's credit cycle are painting a very gloomy picture for the Canadian banks. There's no easy way out of it for Canada's banks. The macro environment has put them between a rock and a hard place, with lower expected loan growth at lower margins to be expected over the foreseeable future.

Bank of Montreal: A dividend dog that's been hit hard by COVID-19

Royal Bank of Canada has held its own relatively well and is a standout winner over the past several months. On the other end of the spectrum, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has been an absolute dog, leading the downward charge on the coronavirus crash courtesy of its higher loan exposure to the oil and gas (O&G) sector, which has been viewed as downright toxic amid the recent carnage in the oil patch.

While Bank of Montreal may seem like the riskiest play after oil's unprecedented meltdown, given the likelihood that many O&G players are going to go belly up across the board, I think that the fear of souring O&G loans has become overblown.

Bank of Montreal's nearly 200-year dividend streak still isn't in jeopardy

Bank of Montreal is one of the best-capitalized firms out there. Even if the new norm for oil is in the teens, or the single-digits, with the occasional dip into the negatives, Bank of Montreal has more than enough liquidity to ride out a barrage of impaired loans while keeping its 190-year dividend streak alive.

And if the coronavirus pandemic were to drag on through year-end, bringing down many small- and medium-sized businesses along the way, Bank of Montreal is a likely candidate to reward its patient shareholders with dividend hikes at a time when most other companies are cutting theirs. For Bank of Montreal, this is just another "perfect storm" that will come up every few decades or so.

With shares of BMO trading at 0.95 times book, I think now is the time for long-term investors to buy while the yield is above the 6% mark.

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