Bank of Montreal (TSX:BMO): A Top Bank With Massive Upside

Description

The Canadian banks have been battered and bruised badly of late. With all the headwinds out there, it's easy to grow wary of them even though they are still the bluest of the blue chips on the **TSX Index**.

With some in the belief that the dividends of some of the big banks could be in jeopardy in a worst-case scenario, in which the coronavirus sends us into an economic depression, you could say that the magnitude of pessimism surrounding Canada's top financial institutions is the highest it's been since the Great Recession.

Let's not mince words, however. The bank stocks didn't just correct: they crashed and crashed hard on coronavirus concerns. And they did so after hovering around in limbo for well over a year amid the Canadian credit downturn.

The rare credit downturn caused short-sellers to target Canada's top banks, with some noting of their ill-preparedness. While the shorts are laughing their way to bank right now, I believe the bank stocks would have held their own had they not been blindsided by this coronavirus pandemic.

Bank of Montreal: Massive upside with minimal downside risk

Bank of Montreal (TSX:BMO)(NYSE:BMO) led the downward charge amid the coronavirus crisis because it's got the most oil and gas (O&G) exposure of its Big Six peers. Moreover, BMO also has a lofty small- and medium-sized business book of loans that's also a victim of the virus-induced lockdown.

While BMO and the broader basket of bank stocks are in for a world of pain over the coming months, you need to remember that there's no use in worrying about what everybody else on Bay or Wall Street is already worrying about!

That's not how you make money in investing. Bank stocks already crashed — so much so that they may be in for a big bounce on better-than-feared results.

BMO stock collapsed over 46% from peak to trough — an excessive decline that probably has more than just a mild recession baked in! BMO isn't going through an existential crisis and I'd be willing to bet that its nearly two-century-old dividend payment streak isn't in jeopardy.

The April market rally was kind to investors who bought the dip and as you guessed, the hardest-hit bank, BMO, led the upward charge, with shares surging over 33% from their bottoms. And given the severely depressed valuation, there may be more upside to come as the economy looks to re-open and recover from the worst crisis in recent memory.

Bank of Montreal: Nothing to fear but fear itself

Many investors are likely frightened of a worst-case scenario, where a majority of BMO's O&G clients go under, potentially sparking a cascade of souring loans that could implode the financial system. Given that BMO and its peers are ridiculously well-capitalized relative to 2007-08, I'd say the bank-related panic is unwarranted.

Negative oil prices don't bode well for the future of BMO's O&G clients. But the headline of "negative oil prices" wasn't as dire as it seemed. Sure, the growing oil supply glut threatens the future of poorly-capitalized junior players in the oil patch, but negative oil is simply not sustainable.

We witnessed this just over a week ago as oil prices shot up back to the teens. As the economy recovers in time, so too will the price of oil. The overblown fears over BMO's souring O&G book may thus prove to be overblown beyond proportion.

Foolish takeaway

BMO isn't supposed to be a proxy for oil prices, but in these unprecedented times, it sure looks like one. I'd buy BMO stock now while it trades below one times book before Mr. Market comes to his senses again and increases the price of admission to one of the most mispriced stocks on the **TSX Index**.

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