Should You Buy Bank of Montreal (TSX:BMO) Stock Ahead of Earnings?

Description

Canadian bank stocks are gearing up to release the next batch of earnings in May. Last month, I'd discussed why investors should be pessimistic about banks in the near term. The COVID-19 lockdowns have ravaged the Canadian and global economy. Banks are typically a more attractive bet because of their diversification. However, in this case, that broad exposure may be to their detriment as earnings trickle in. This brings us to **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock.

Bank of Montreal: The story so far

Bank of Montreal stock had dropped 32% over the past three months as of close on May 4. The bank released its first-quarter 2020 results on February 25. At the time, things were running smoothly for BMO and its peers.

In Q1 2020, BMO reported adjusted net income of $1.61 billion — up 5% from the prior year. Adjusted earnings per share climbed 4% year over year to $2.41. BMO achieved a solid performance in each of its business segments. Its Canadian Personal and Commercial Banking division reported net income growth of 8% on the back of strong deposit and loan growth. Capital Markets, Wealth Management, and BMO's U.S. segment all posted impressive growth over Q1 2019.

The picture looked bright for Bank of Montreal and other top Canadian banks in late February. However, the story has changed due to the devastating COVID-19 pandemic. BMO and other bank stocks have been ravaged, but their rebound in the near term is not a sure bet.

Banks are bracing for lockdown fallout

Bank of Montreal is set to release its second-quarter 2020 results on May 27. Last year, I'd discussed why BMO stock looked like a great buy, as it slipped into oversold territory. Should investors look to buy low right now?

Shares of BMO last had a favourable price-to-earnings ratio of 7.7 and a price-to-book value of 0.9.

BMO stock fell into oversold territory in March. However, the stock last had an RSI of 44. This puts BMO stock in neutral territory as far as its technical trend goes.

As I'd discussed at the beginning of this article, investors should expect banks to be hit hard by broader headwinds. BMO has its strongest footprint in the province of Quebec, which, along with Ontario, has been hit the hardest by the COVID-19 outbreak. The province is just beginning to loosen its lockdown through a gradual re-opening. Unfortunately, the negative impacts on the overall economy and on the financial well-being of millions of Canadians may take many years to repair.

Why BMO stock is still worth a look today

Investors should not expect bank stocks to rebound as sharply as some equities in other sectors had, but this does not mean they are a bad investment. Many economists and analysts expect that the lockdowns will accelerate business trends across sectors, including banking. BMO has recently said that 80% of its workforce could switch to a blended work-home schedule going forward.

Bank of Montreal stock is still trading at the low end of its 52-week range. Like its peers, the bank has a flawless balance sheet. Moreover, the stock last paid out a quarterly dividend of $1.06 per share. This represents a strong 6.2% yield.

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