Bank of Montreal (TSX:BMO) Cratered 42% — Buy the Stock Before it Corrects to the Upside

Description

Don't look now, but **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock is down around 42% from its all-time highs. The stock led the latest downward charge as the coronavirus sent the sector tumbling to multi-year depths.

Given the haze of uncertainty clouding the future of Canada's banks, BMO looks more like a speculative bet than a sound blue-chip investment these days. But it still has a rock-solid dividend and a generationally low valuation. I think it makes sense to nibble away at the stock as it falls. Investors could lock in a huge yield and outsized capital gains in the event of a banking sector rebound.

BMO: A Dividend King that's been punished

BMO, with its above-average oil and gas (O&G) exposure, was a top bank for Canadians to ditch as the market crashed. The fate of many junior firms, especially within the O&G space, remains highly uncertain as the pandemic drags on.

Sure, if a majority of the players within the Albertan oil patch get wiped out, BMO is going to take a serious hit. But BMO isn't alarmingly overweight in O&G loans; its book is well diversified. So I find it absurd that the stock is trading like an energy stock and view the recent pullback as overblown.

Moreover, to offset its higher exposure to O&G, BMO has less exposure than its peers to Canada's frothy housing market. This is another sector that could be on the verge of collapse thanks to the coronavirus crisis. I think BMO stock isn't nearly as "toxic" a bank as many believe it to be.

BMO, along with the other Big Six Canadian banks, are ridiculously well capitalized. They're in far better shape than they were before the Financial Crisis, with solid capital ratios and a banking structure that better allows them to roll with the punches.

A tough road ahead for BMO and the big banks

The banks are certainly in for a doozy for the next several quarters. Although there are few, if any, things to look forward to when it comes to the banks, I'm still a firm believer that every stock becomes a buy if the price is right.

Certainly banks may be ridiculously hard to value in these most uncertain times. However, I do think that some of the harder-hit banks like BMO are trading at levels offering deep value to long-term investors willing to stomach the volatility.

BMO is a Dividend King that's paid a dividend for nearly two centuries. That near-7%-yielding dividend isn't going anywhere soon. Expectations appear so low that BMO stock could be in a position to lead the next rally on better-than-feared results once the economy reopens.

Foolish takeaway

The stock is down over 42% from its all-time high and currently trades at just 0.87 times book. I'd say a majority of the damage has already been done and that the stock could easily double within three years should this pandemic end sooner rather than later. BMO is a wonderful business, and insiders have been eating their own cooking, scooping up around $3 million worth of shares amid this downturn. I think it's time to follow in their footsteps.

Stay hungry. Stay Foolish.

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