This Top Bank Stock Is a Screaming Buy After Earnings

Description

In the middle of April, I warned investors not to expect a rapid rebound for Canadian bank stocks. The COVID-19 pandemic has led to an extremely challenging environment for financial institutions. Offices and branches have been forced to close around the country, which has had a significant impact on loan and deposit volumes.

Today I want to look at one Canadian bank stock that looks like a nice buy after its second-quarter earnings report.

Canadian bank stocks have performed well after earnings season

Canada's top financial institutions released their second-quarter results in late May. There were some constants that plagued top banks in Q2. One trend was the massive increase in provisions for credit losses. Canadian unemployment numbers have soared in this crisis.

The federal government sprang to action with its Canada Emergency Response Benefit (CERB) program. Still, the crisis will be an added burden to an already overleveraged populace.

Banks took their lumps in the second quarter. Regardless, bank stocks managed to gain momentum after investors got a glimpse at earnings reports. Markets were encouraged by the measures top financial institutions took to guard against bad loans in 2020. Now, as the economy slowly reopens, banks should receive an even bigger boost.

Why BMO still looks strong ahead of the summer

My top bank stock to buy in early June is **Bank of Montreal** (TSX:BMO)(NYSE:BMO). Shares of BMO had dropped 24% in 2020 as of late morning trading on June 5. The stock was up 8% month over month at the time of writing. BMO released its second quarter 2020 results on May 27.

The bank reported adjusted net income of $715 million, or $1.04 per share compared to $1.52 billion or $2.30 per share in the prior year. It bumped up its provisions for credit losses to $1.11 billion – up from $176 million in Q2 2019.

Management reiterated that BMO is well positioned to face the challenges of the COVID-19 pandemic and its after affects. BMO's operational performance was still solid in the second quarter, with net income taking a sharp dip primarily due to the increase in provisions for credit losses.

BMO stressed the uncertainty surrounding the pandemic in its earnings report. While Canadian provinces are on the path to reopening, there's been little clarity on a timeline. Ontario, Canada's most populous province, just extended its state of emergency for another 30 days. Leaders are stressing adherence to data and a commitment to caution.

This lack of clarity will make it difficult for investors in the near term. Still, there are good reasons to trust this bank stock ahead of the summer.

BMO offers nice value in early June

Like its peers, BMO boasts a fantastic balance sheet. Shares of BMO last possessed a favourable price-to-earnings ratio of 10 and a price-to-book value of 0.9. Moreover, the bank maintained its quarterly dividend of $1.06 per share in the face of this crisis.

That represents a strong 5.7% yield. BMO has delivered dividend-growth for eight consecutive years. This is certainly a bank stock worth scooping up in early June.

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