Bank of Montreal (TSX:BMO): A Top "Catch-Up" Buy for Canadians

Description

For the Canadian banks, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) in particular, there's been a bit of a disconnect between the fundamentals and the valuation multiple placed on shares. Given the **TSX Index** suggests that we're in for a V-shaped economic recovery, it simply doesn't make sense for investors to keep Canadian bank stocks in the doghouse.

The Canadian banks are built to last

The Canadian banks have been stress-tested, they're far better capitalized than prior to the 2007-08 Financial Crisis, and yet they are still trading as though they're sitting at "ground zero" of this crisis once again.

Sure, when the economy goes sour, everything falls back to the Canadian banks. But shares of Bank of Montreal, which have led the downward charge for the Big Six amid this crisis thanks to its larger slice of energy loans, look priced with more than just a mild recession in mind. As such, Canadian investors looking for a "catch-up trade" ought to consider scooping up BMO, while it's still trading at a discount to book.

After a slight relief rally alongside the broader markets, BMO sports a mild 0.98 discount to book, but the stock still looks severely undervalued given its demonstrated resilience amid the COVID-19 crisis and status as a Dividend King. Moreover, the bank has limited exposure to the "frothy" Canadian housing market and the personal and commercial (P&C) banking industry.

Bank of Montreal: A rocky quarter now in the rear-view mirror

For the latest quarter, BMO's provisioning popped 500% year over year to a staggering $1.2 billion.

The very sharp rise in loan losses was unprecedented and alarming, but the triple-digit percentage pop wasn't nearly as devastating to BMO as the headlines made it sound. Management braced itself for the loan-loss storm, and believe it or not, there's a real possibility that the second quarter saw peak provisions.

In any case, BMO's bulletproof dividend (currently yielding 5.5%) isn't going to be cut anytime soon. If anything, it's likely to be hiked in spite of the headwinds, as management continues rolling with the seemingly never-ending punches that the macro environment keeps throwing its way.

BMO's common equity Tier 1 (CET1) ratio fell slightly to 11%, which is still an awe-inspiring number when you consider the magnitude of the shock brought forth by the coronavirus that came amid a rare Canadian credit downturn. BMO remains ridiculously well capitalized, and given management's track record for impeccable risk management, income-oriented investors ought to consider loading up on the battered stock today before its yield (and valuation) has a chance to revert towards mean levels.

Foolish takeaway

The bar is still set low for BMO going into the next round of earnings.

While BMO looks to be the best bank for your buck at this juncture, investors need to remember that a second wave of coronavirus outbreaks in the latter part of the year could quickly derail the broader rebound thesis for the Canadian banks. As such, I'd only scoop up shares if you're willing to hold for the long haul and are willing to average down things go sour and the bar is lowered even farther.

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