



Investor Alert: This Bank Stock Is Trading Below Book Value!

Description

It is not often that a quality bank stock trades below book value. In fact, it is one of those things that, in hindsight, we look upon as an opportunity of a lifetime. Today, I am happy to alert you to the fact that **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock is trading below book value.

Of course, this could never happen unless there was a crisis of sorts. It could be a company-specific crisis or a macroeconomic crisis. In this case, the coronavirus has brought an economic crisis upon us in 2020.

Vulnerable — but long-term value

It's true that Bank of Montreal's latest quarter was disastrous. While this is not something we should downplay, we can say a few things about this. First, the problem is an economic one brought on by the forced closure of businesses rather than a company-specific issue.

The economic turmoil due to the coronavirus shutdowns has impacted all banks. Provisions for credit losses are soaring everywhere as customers lose their jobs and businesses are closed.

Also, governments are working with the banks and with consumers with the goal of lessening the impact of the pandemic. [All fronts all working on ensuring that this crisis does not lead to long-term systemic problems.](#)

Bank stocks have come out shining before

The coronavirus pandemic has come at a time when banks are in one of the strongest positions in a long time. After the 2008 financial crisis, Canadian banks adopted even stronger capitalization rules and policies. They maintained a conservative way of doing business so that they would be ready for the next crisis.

And here we are today. The next crisis has come in the form of a health crisis which has shut down

economies.

But even before the coronavirus hit, cracks were already starting to appear in bank stocks after years of booming profitability. From slowing loan growth to increasing bad loans, the banking sector has been preparing for the challenges ahead for many months. Bank of Montreal has been reducing expenses, with a 4% decline in the latest quarter.

The future is murky

The duration of the downturn is key. And while this is the big unknown, bank stocks, including Bank of Montreal, are resilient. Bank of Montreal is strong enough to withstand this pain for now. Management at Bank of Montreal has a strong track record of risk management. This is continuing in this downturn.

The bank's financial strength, as measured by its CET1 ratio, is healthy at 11%. The CET1 ratio measures the bank's core capital relative to risk weighted assets. Bank of Montreal looks favourable in this regard.

And there are more rays of light in this murky situation. Bank of Montreal is supported by the fact that it has one of the lowest exposures to the Canadian personal and commercial banking (P&C) industry. Also, the bank's wealth management segment had a strong second quarter. Good asset growth allowed the segment to hold up well.

Foolish bottom line

As [long-term investors](#) know, the carnage that has happened in bank stocks over the last four months is an opportunity. Because while the economic toll of the coronavirus will be huge, Canadian banks are well capitalized. As they survived the 2008 crisis, they will survive this one.

Bank of Montreal is a bank stock to buy now as it is trading below book value. The dividend yield is a very generous 5.55% today. The Canadian economy is slowly reopening. We wouldn't want to miss this chance to buy Bank of Montreal for huge long-term gains.

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