Bank of Montreal (TSX:BMO) Just Soared 8%: Is it on the Cusp of Generational Rebound?

### Description

Don't look now, but shares of **Bank of Montreal** (TSX:BMO)(NYSE:BMO) just surged 8% over the past two days, rocketing 5.7% on Tuesday following the release of some spectacular third-quarter results that were much better than feared given the profound COVID-19 impact.



During the COVID-19 sell-off back in February and March, Bank of Montreal stock led the downward charge, losing over 46% of its value from peak to trough. There's no question that Bank of Montreal had more than its fair share of loans to some of the hardest-hit industries amid the crisis.

But I'm sure you'd agree that Mr. Market's decision to slash the price of the premium Big Five Dividend Aristocrat in half was quite a stretch, even though the macro headwinds do seem insurmountable.

Now that Bank of Montreal stock is picking up traction, is now the time for Canadians to rotate back into the battered banks before they have a chance to ride on the back of the next bull market? Or is this post-earnings rally another fake-out that could lead to more tears?

## The return of Big Blue

The first two quarters of the year were nothing short of brutal for the big banks. Provisions for credit losses (PCLs) rose at unprecedented rates following one of the worst socio-economic disasters of the century.

Plunging interest rates didn't bode well for many of the Dividend Aristocrats, including Bank of Montreal, which some thought was at risk of bringing its nearly 200-year-old dividend to the chopping block. While the pressures were unprecedented, I thought there was no chance that Big Blue would cut its dividend given its still stellar capital ratio and the possibility that the worst of this crisis was already in the books in the first two quarters of 2020.

For the third quarter, BMO clocked in an adjusted EPS of $1.85, blowing away estimates of analysts who were calling for $1.73. Investors were bracing for more pain, but PCLs and expenses were considerably less than what was feared given continued COVID-19 woes.

## The worst may be in the rear-view mirror for Bank of Montreal as the Canadian economy recovers

The management team also guided to lower impaired PCLs and loan losses at around the 40 basis point level for the coming two quarters. BMO's above-average oil and gas (O&G) exposure was a major sore spot that will likely continue to weigh on BMO's bounce-back potential going into year-end.

However, given BMO's O&G exposure was a likely reason why the stock took on a brunt of the damage back in February and March, it was to be expected that BMO would have more room to recover given nothing short of pessimism was already baked into the share price.

Another massive positive in the quarter was BMO's CET1 ratio, which jumped 60bps quarter-over-quarter to 11.6%, nearly a full percentage point above the expectations of some of the more bearish analysts. With the Canadian economy showing signs of improvement, I'd say BMO stock is a must-buy after its stellar quarter and believe that the stock could sustain the post-earnings rally much higher, possibly past $90.



## Foolish takeaway on Bank of Montreal

For investors waiting around for the perfect opportunity to lock-in the swollen yields of the big banks, now is as good a time as any to get in before the banks bounce in conjunction with the Canadian economy.

Canada's economy is on the mend, and as it looks to heal from the COVID-19 crisis, there's a tonne of upside to be had in COVID-hit names like the banks, Bank of Montreal in particular.

**CATEGORY**

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Stocks for Beginners

**TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Sharewise
6. Yahoo CA

**Category**

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Stocks for Beginners

**Date**
2025/08/03
**Date Created**
2020/08/26
**Author**
joefrenette