



Bank Earnings Preview: Bank of Montreal (TSX:BMO)

Description

When November started, I'd decided to look at the Big Six Canadian banks ahead of the fourth and final batch of earnings for fiscal 2020. This past weekend, I'd looked at **Scotiabank**, which I'd targeted as one of the [most attractive equities](#) due to its promising value and strong dividend yield. Today, I want to look at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). This is the fourth-largest Canadian bank by market cap. Its shares have dropped 14% in 2020 as of close on November 6. The stock is up 10% over the past three months.

I want to look at Bank of Montreal's most recent earnings release. Should we expect improvement as we await its Q4 2020 results? Should you buy BMO stock right now? Let's dive in.

Why Bank of Montreal surpassed expectations in the third quarter

Bank of Montreal released its third-quarter 2020 results on August 25. The Montreal-based bank managed to beat analyst expectations, as it drove down bad loan provisions. Still, its provisions ballooned to \$1.05 billion in the third quarter.

In Q3 2020, BMO reported adjusted net income of \$1.26 billion — down from \$1.58 billion in the prior year. Moreover, in the year-to-date period, adjusted net income has fallen to \$3.59 billion compared to \$4.64 billion in 2019. Bank of Montreal has sought to build a more robust operation in the United States in recent years. Profit in its U.S. division fell 29% year over year in the third quarter, better than the 51% drop in its domestic operations. The Capital Markets division was hit hard by the worst trading day in over 10 years, while provisions also weighed on its earnings in this space. That aside, profits still rose 36% to \$426 million.

Bank of Montreal maintained its dividend offering in the third quarter. I'll delve further into that when we decide whether to [buy this bank stock](#).

What to expect ahead of the final batch of earnings

Investors can expect to see Bank of Montreal's fourth-quarter and full-year 2020 results on December 1. The broader Canadian economy improved in the summer, but provinces have been forced to reintroduce restrictions due to rising COVID-19 cases. This means that the recovery will likely be stalled in the last few months of the calendar year. Executives from **TD Bank** and **Royal Bank** warned of uncertainty even after releasing solid quarterly earnings in the third quarter.

That reality is still staring investors in the face in the fourth quarter. Bank of Montreal's U.S. push is facing uncertainty of a different kind south of the border. Joe Biden has emerged as the apparent victor, winning the popular vote and the electoral college in the November 3 election. However, President Donald Trump has refused to concede and is apparently committed to a lengthy court battle. This is uncharted territory in the modern era.

Should you buy Bank of Montreal today?

Bank of Montreal stock last possessed a price-to-earnings ratio of 11 and a price-to-book value of 1.0. This puts the stock in favourable value territory. In Q3 2020, Bank of Montreal maintained its quarterly dividend of \$1.06 per share, which represents a strong 5.2% yield. BMO stock currently offers good value and nice income ahead of its final earnings release in 2020.

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