



Why Have Bank of Montreal (TSX:BMO) Stock in Your Portfolio?

Description

Loan growth, rising interest rates, and an uptick in commercial activities suggest better days ahead for banks. However, the higher inflation and the Russia/Ukraine conflict pose near-term challenges.

As for **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), its shares have recovered sharply from the pandemic lows and delivered exceptional returns. Further, the past year has been profitable as recovery in the economy, lower provisions, and cost-control measures led Bank of Montreal to deliver robust profit and lift shareholders' returns through higher dividend.

Strong start to FY22

After a strong performance in FY21, the momentum in Bank of Montreal's business continued in FY22. The bank delivered solid Q1 performance to start the year on a solid note. For context, Bank of Montreal posted adjusted earnings of \$3.89 per share in Q1, representing year-over-year growth of 27%. Further, its pre-provision pre-tax earnings increased by 18% to \$3.3 billion.

Q1 highlighted the strength in its P&C (personal & commercial) segment in Canada and the U.S., led by higher commercial loans and lower provisions. Further, momentum in the capital markets and wealth management division is encouraging.

Now what?

I expect the momentum in its P&C business to sustain on the back of higher commercial loans. Its innovative products, investments in key customer-facing roles, and enhanced digital experience position it well to capitalize on the recovery in consumer activity and drive commercial loans. Further, its expansion in the U.S. and new client acquisitions bode well for growth in the U.S. P&C segment.

Overall, Bank of Montreal's investments in sales and digital capabilities, diversified revenue base, accelerating loan growth, rising interest rates, and continued focus on operating efficiency will likely support its financial performance and margins. Further, its acquisition of Bank of West could drive

scale and growth for Bank for Montreal in the U.S. segment.

Well positioned to enhance shareholders' value

Bank of Montreal has been famous for consistently enhancing its [shareholders' value](#) for decades. It has continually paid dividend for 193 years. Moreover, Bank of Montreal's dividend has grown at a CAGR of over 4% in the last 15 years.

Last year, Bank of Montreal announced a 25% hike in its dividend. Moreover, the ongoing strength in its business, diversified revenue base, and operating leverage could drive its bottom-line growth and support higher dividend payments.

Bottom line

The current macro and geopolitical environment could create short-term challenges. However, the uptick in loans and deposits volume, its focus on efficiency, strong credit performance, and strength in its balance sheet position Bank of Montreal well to deliver solid financials and boost shareholders' value.

Despite an appreciation in price, Bank of Montreal stock is trading at a forward P/E multiple of 10.7 and a P/BV multiple of 1.6. These valuation multiples compare favorably to the peer group average. Further, they are in line with its historical average.

Overall, ongoing momentum in its business and strong [dividend payments](#) (current yield of 3.7%) support my bullish outlook. Further, its valuation is well within investors' reach.

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