



## BMO Stock Price: Is it Time to Buy?

### Description

**Bank of Montreal's** ([TSX:BMO](#))([NYSE:BMO](#)) stock price has corrected about 15% from its 52-week high versus the Canadian stock market's dip of about 9%. The [bank stock](#) now sits at just under \$131 per share at writing and yields just over 4%. Is the dividend stock a good buy now?

The stock price and dividend yield are some interesting information about BMO stock, but they're not very telling as to whether it's a good buy now. Let's dig a little deeper. How are the bank stock's long-term returns?

### Bank of Montreal stock's 10-year returns

Let's take a look at BMO stock's last 10-year returns. In the period, it delivered total returns at a compound annual growth rate of approximately 11.8%. Those are some very solid returns, which roughly tripled investors' money. Essentially, it turned an initial investment of \$10,000 into approximately \$30,414.

The bank stock started paying an initial yield of over 5%, driven by a dividend that it increased by roughly 90% in the period. This equated to a steady increase of 6.6% annualized over the decade. The dividend growth was driven by earnings-per-share growth of about 9.4% in the period.

An investor who bought BMO stock at the start of the period would be sitting on a yield on cost of close to 9.7% on their position! This means that going forward, this investor will earn +9.7% on their initial investment from the bank dividends alone, assuming the bank continues to maintain or increase the dividend.

Over the decade, the bank stock's price-to-earnings multiple only expanded very little. At writing, it trades at about 9.9 times earnings, which is a discount of 12% from its long-term normal valuation.

### Is BMO stock cheap?

BMO stock's earnings have increased over the last 10 years, except for the pandemic year in fiscal 2020, in which it experienced a drop. The earnings decline more than recovered in the subsequent year. As a big Canadian bank, BMO stock's earnings are impacted by the economic cycle in Canada. As well, government benefit programs during the pandemic came to the rescue by putting money in the hands of people in need. This supported BMO's beautiful earnings recovery in fiscal 2021.

For this year, its adjusted earnings per share rose 37% higher than in fiscal 2019. When stretched out over the last five years, its earnings-per-share growth rate was 11.5%. Its payout ratio is estimated to be about 39% of earnings this year, which is a safe ratio to protect its dividend.

Having mostly stable and rising earnings combined with a sustainable payout ratio for a stock trading at below 10 times earnings that's growing its earnings by about 6% per year are a good proposition. It's not the best value that it could be, but such an opportunity comes only once in a blue moon. BMO stock is a good value now. By buying the dividend stock now, investors over the next five years could earn returns of about 10-12% per year, which is quite good for a safe investment in a solid bank stock.

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