



Should You Buy Bank of Montreal Stock Now?

Description

Bank of Montreal ([TSX:BMO](#)) just reported fiscal Q4 and full-year 2022 results. As the economy heads into a potential recession in 2023, investors are wondering if **BMO** stock is good to buy at the current level.

Bank of Montreal overview

Bank of Montreal is currently Canada's third-largest bank with a [market capitalization](#) of \$90 billion. The company is known for having a balanced revenue stream that comes from personal and commercial banking, wealth management, and capital markets activities in both Canada and the United States.

The Big Six Canadian bank is in the process of making a large U.S. acquisition to boost its presence in the American market. The purchase of **Bank of the West** for US\$16.3 billion will add more than 500 branches to BMO Harris Bank. Importantly, this will give the bank a solid foothold in California. Clients in the state account for 70% of deposits at Bank of the West. Annual pre-tax cost synergies are expected to be US\$670 million.

The deal is expected to close in early 2023 and increase assets by US\$92 billion, loans by US\$59 billion, and deposits by US\$76 billion. BMO Harris Bank will have a presence in 32 states after the purchase closes and it picks up roughly 1.8 million new customers.

Bank of Montreal earnings

Bank of Montreal generated fiscal Q4 adjusted net income of \$2.1 billion compared to \$2.2 billion in the same period last year. Adjusted earnings per share came in at \$3.04 compared to \$3.33. Provisions for credit losses were \$226 million compared to recovery of provisions of \$126 million in Q3 2021. Evidently, Bank of Montreal is setting more funds aside to cover potential loan defaults.

For the full year, Bank of Montreal topped its 2021 results. Adjusted net income was \$9 billion

compared to \$8.7 billion last year. Earnings per share on an adjusted basis came in at \$13.23 compared to \$12.96 in fiscal 2021.

Adjusted return on equity slipped to 15.2% from 16.7%, but was still a solid performance.

Dividends

Bank of Montreal has given investors a dividend every year since 1829. The board raised the payout by 25% late last year and another 4.5% while reporting Q2 2022 results. At the time of writing, the dividend provides a 4.25% yield.

Risks

BMO announced the big acquisition late last year just as [bank stocks](#) were hitting their highs. So Bank of Montreal is likely paying a hefty premium to acquire Bank of the West. The long-term benefits should justify the move, but there could be some near-term pain if the economy in the United States goes through a rough recession in 2023 or 2024. Economists are predicting a soft landing for the economy in both Canada and the U.S. Nonetheless, the full impacts of persistent inflation and aggressive interest rates hikes have yet to be felt.

Is Bank of Montreal stock a buy?

Bank of Montreal trades for close to \$134 per share at the time of writing compared to \$154 at its peak in March. As long as any recession turns out to be short and mild, the stock is probably attractive at the current level.

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