BMO Stock: Here’s What to Expect in 2023

Description

Banking stocks significantly underperformed the broader markets in 2022 due to a range of macroeconomic challenges. Investors were worried about the triple whammy of inflation, geopolitical tensions, and rising interest rates, all of which impacted the **Bank of Montreal** (TSX:BMO) and its peers last year. Currently, BMO stock is trading 14% below all-time highs, valuing the financial giant at a market cap of $92.7 billion.

The banking sector is extremely cyclical and moves in line with the economy. So, in periods of economic contraction, bank stocks lose momentum but stage a turnaround when the economy expands.

So, amidst the ongoing sell-off, investors can buy a quality stock at a discount that also offers shareholders a tasty dividend yield. Let’s see what you can expect from BMO stock in 2023.

Is BMO stock a buy?

The Canadian banking industry is quite conservative compared to its counterparts in the United States. But due to their conservative nature, BMO and its peers have comfortably navigated several economic recessions in the past.

For instance, several banks south of the border cut or suspended dividends during the financial crisis of 2009. BMO and most Canadian big banks maintained these payments, showcasing the robustness of their balance sheets.

In the last 20 years, BMO has increased dividends at an annual rate of 7.5%, which is quite impressive as the world has wrestled with the dot-com bubble, a housing crisis, and a global pandemic in this period.

BMO stock offers investors an annual payout of $5.72 per share, indicating a forward yield of 4.4%. With a payout ratio below 50%, BMO’s dividends are quite sustainable.

Further, BMO's balance sheet is well capitalized as the company has a Tier 1 Capital Ratio of 15.8%, which is the highest among all North American banks. So, the Bank of Montreal is well-positioned to deliver market-beating gains to investors even if recession fears come true.

BMO has now paid shareholders a dividend for 193 consecutive years, the longest streak among Canadian companies.

What next for BMO stock and investors?

While BMO has an established presence in Canada, it is gaining traction in the much bigger market in the U.S. The U.S. presence allows the bank to consistently grow its earnings over time. While BMO generates 60% of earnings from Canada, the U.S. accounts for 40% of total net income. In late 2021, BMO also acquired Bank of the West, making it the eighth-largest bank in North America.

Despite a weak macro environment, BMO is expected to increase its adjusted earnings from $13.2 per share in fiscal 2022 to $14.25 per share in fiscal 2024. In the next five years, adjusted earnings could increase at an annual rate of 6.2%.

So, BMO stock is priced at just over nine times 2024 earnings. This valuation is quite reasonable given its dividend yield and earnings expansion.

Analysts remain bullish on BMO stock and expect it to surge 10% in the next 12 months. After accounting for its dividends, the bank should deliver total returns closer to 15% in the next year.

If you expect the economy to recover in the second half of CY 2023, it makes sense to buy and hold BMO stock right now.

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