



Could BMO Stock Be a Big Winner in 2023?

Description

Bank of Montreal ([TSX:BMO](#)) stock has delivered solid annualized returns of about 12% in the past decade. It's a winner versus the Canadian stock market of about 8.2% in the period. According to the [Rule of 72](#), long-term BMO stock investors would have doubled their money in about six years.

One factor that can help you bank on big winners is to pay a good valuation for stocks. Is the bank stock cheap today?

How's BMO stock's valuation?

At \$135.24 per share, BMO stock trades at about 10.2 times earnings. This equates to a discount of approximately 12% from its long-term normal valuation. So, the [dividend stock](#) trades at a small discount.

Analysts have a consensus 12-month price target that suggests a discount of only 5%. So, they generally think the bank stock is fairly valued.

So, buyers of the stock today are, at worst, paying a fair price for BMO stock. It looks like the valuation itself won't make BMO stock a big winner in 2023, unless the stock corrected meaningfully.

Some economists have been calling for a soft-landing recession in the first half of 2023. However, the better-than-expected U.S. gross domestic product (GDP) growth of 2.9% in the fourth quarter pushed the bank stock higher in recent trading.

If a recession really does play out, investors may be able to buy at a better valuation — perhaps in a dip of +7%.

Bank of the West acquisition: A growth catalyst

One thing Bank of Montreal is excited about is the anticipated closing of the Bank of the West

acquisition next week, which would expand BMO's U.S. footprint, particularly in the attractive market of California.

Specifically, Bank of the West will add 1.8 million commercial, retail, wealth management and business banking customers to BMO's client base. After the closing, Bank of Montreal will have a strong position in three of the top five U.S. markets and provide increased convenience with access to over 1,000 U.S. branches in 32 states and nationwide fee-free access to over 42,000 ATMs.

Management expects the transaction to be immediately accretive. Furthermore, it looks forward to materializing cost synergies of the combined banks in 2024, which can further boost BMO's earnings.

Notably, the bank hopes to combine the banks' systems by early September 2023. There's always a chance of system hiccups in this kind of conversion, which could result in bad press that can temporarily cause a dip in the stock. If the dip materializes, investors should see it as a buy-the-dip opportunity.

The Foolish investor takeaway

From the current levels of \$135 and change per share, it's unlikely BMO stock will be a big winner in 2023. However, stocks are meant for long-term investing. If the business executes well, the stock will become more valuable and increase its dividend over time.

For example, in the past 10 fiscal years, BMO stock increased its dividend every single year. Since fiscal 2012, the [bank stock](#) has roughly doubled its dividend! At writing, it yields 4.2%. This is solid passive income that is set to grow and taxed favourably in a non-registered account. As such, the bank stock is worthy to be considered a core holding in a [diversified portfolio](#).

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