The Bank of Montreal Is in the TSX Dog House: Could This Be an Opportunity to Invest?

Description

Last week, Canada's big six banks began to release their first quarter results and **Bank Of Montreal** (TSX:BMO)(NYSE:BMO) was the first of the six to report. Things did not go well for the bank, as it missed analysts' expectations and sent tremors throughout the TSX. Now that the dust has settled, investors can take a better look at the bank and decide what to do with its stock.

Result refresher

Before we go forward, we have to look back at the financial report that sent the stock price down. BMO managed to increase its revenues in the first quarter to $5.06 billion from $4.48 billion, but the bank saw its net earnings fall by $61 million to $1 billion. This is less than half of what some of its competitors posted in net income during the quarter. BMO has attributed some of the drop in net income to the recent drops in the loonie, crude prices, and the continued low interest rates. The bank also saw its return on equity fall to 11.8% from 14.2%. For a comparison, **Royal Bank Of Canada** posted a return-on-equity rate of 18.1% during the same period. BMO also saw income from its capital markets division fall by 20%, as some of its competitors gained ground in this business segment.

Brighter future ahead?

BMO did have some good news in its last quarter, mainly due to its wealth management division. In the quarter, assets under management rose by 18%, revenues increased by 26%, and adjusted net income rose by 28%. These increases are partly attributed to the recent $1.3 billion acquisition of London firm F&C Asset Management in May 2014.

While BMO may be the smallest of the Canadian banks in terms of its branch footprint, the bank has managed to grow its U.S. banking division to be the second largest of Canadian banks. Since 2008, this has been seen as a fiscal weakness for the bank, but as the American economy continues to strengthen, BMO should be in line to take advantage of the "good times."

In Q1 2015 alone, BMO generated $192 million in net income, up from $167 million last year and revenues of $720 million up from $714 million in Q1 2014. These increased revenues from its U.S. operations are going a long way to justify the US$4.1 billion the bank paid for Marshall & Ilsley Corp. This acquisition made back in 2010 was done to give BMO a larger foothold in the U.S., while also taking advantage of the devalued prices of smaller American banks at the time.

The final word on BMO

With its exposure to the U.S. market, some investors could look at this as a way to invest in the U.S. banking market without investing in an American bank. However, BMO may not be the most lucrative option available. As mentioned above, BMO only generated $192 million in net income from its U.S. banking operations. While **Toronto-Dominion Bank**, the Canadian bank with the largest exposure to the U.S., generated US$536 million from its U.S. retail banking division.

BMO closed Friday at $76.06, near the low end of its 52-week range of $71.64 to $85.71. This quarterly report has soured analysts' expectations, as the average price target has fallen to $81.20. Even the most bullish price target is only $85.00. BMO may not be the star of the Finance & Banking portion of your portfolio, but it could be a supporting player.

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