



Bank of Montreal (TSX:BMO): Earnings Preview

Description

Canadian bank **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), is set to report its 2020 Q3 earnings Tuesday, August 25. The company will report its earnings before the market's open.

Valued at a market cap of close to \$50 billion, BMO is ranked as the fourth-largest bank in Canada. The bank primarily focuses on providing personal and commercial banking products, as well as wealth and asset management services.

The banking industry has trailed the Canadian market for most of the year. The **S&P/TSX Composite Index** is down only a couple of percent on the year, while most of the Big Five banks have dropped much more than that, BMO included. The Montreal-headquartered bank has seen its share price decline more than 20% from where it began the year.

Why I'm watching bank stocks closely this earnings season

Even though the Canadian market is down on the year, plenty of stocks are trading at all-time highs today. Bank stocks, however, are not included in this group of companies. With so many high-flying tech companies trading at all-time highs, why am I interested in the major Canadian banks?

Largely in response to the effects of the COVID-19 pandemic, Canadian interest rates have dropped considerably throughout the year. As those interest rates have declined, so has the profitability of the major banks. On the bright side, [valuation is extremely attractive today](#) for Canada's top banks.

BMO trades today at a very attractive forward price-to-earnings ratio of 9.5, in line with the other Big Five banks. The bank also trades at a price-to-book ratio of 1, which is the lowest you'll find today amongst the other four major Canadian banks.

As BMO is set to report earnings next week, it will kick off the Canadian banking earning season. The **Bank of Nova Scotia** will also report on August 25, while **Royal Bank of Canada**, **Toronto-Dominion Bank**, and **Canadian Imperial Bank of Commerce** will all report later that same week. Here's what I'll be watching closely when BMO reports earnings on August 25..

Update on the US expansion strategy

A major reason why I'd consider adding BMO shares to my portfolio is due to the bank having a decent amount of exposure to the US economy. Roughly 30% of net income is driven by the U.S. Personal and Commercial Banking division.

Understandably, revenue and net income will likely be down year over year as the company is dealing with the damaging effects of the COVID-19 virus. What I'll be looking for management to discuss is if the pandemic has altered the long-term plans of expansion through the U.S.

I'll also be very interested to hear what types of differences the bank is seeing in terms of economic recovery between Canada and the US. Is either country on a faster road to recovery based on what they've witnessed over the previous three months?

Update on the road to recovery

BMO continues to be a solid bank with a [diversified revenue stream](#), and one of the most dependable dividends you'll find on the market. The bank will understandably take significant hits in revenue and income growth, but I'll be much more interested in understanding how the company has seen Canada and the US recover over the past three months.

BMO last reported its quarterly earnings at the end of May, which covered the months of February to April. The bank spent a significant amount of time during the earnings presentation explaining how it was handling the pandemic, with regards to employees, customers, and the community.

As COVID-19 cases are much lower now than where they were three months ago, I'll be looking for BMO to kick off the Canadian banking earnings season with an update on what a post-COVID-19 economy will look like, at least in the short-term.

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