Bank of Montreal: I Have My Eye on it

Description

Ever since I learned that **Bank of Montreal** (TSX:BMO)(NYSE:BMO) had been paying a dividend since 1829, I've been very intrigued by its prospects as a long-term investment. The way I see it, if a company can pay dividends through World War I, the Great Depression, World War II, multiple energy crises, and the 2007-08 Financial Crisis, it's definitely a company worth considering. And based on my research, it doesn't disappoint.

In fiscal Q3 2016, the company dominated thanks to its exposure in both Canada and the United States. All told, adjusted net income increased by 5% year over year to $1.3 billion. Its earnings per share saw a 4% bump. Here's why…

In Canada, Bank of Montreal saw a 6% increase in loans and an 8% increase in deposits. This resulted in a small but steady 1% increase to its adjusted net income to $562 million. In the United States, it delivered much faster growth, but this was expected because it's a newer part of the company. Its adjusted net income rose 22% to $289 million.

To round out the rest of its diversified income, its capital markets division was able to achieve 18% growth to its adjusted net income. And its fee-based wealth management division only saw a 2% drop in its adjusted net income. All in all, business is doing very well for the bank.

At the end of 2015 Bank of Montreal rolled out the newly named BMO Transportation Finance business. This was a re-brand after it had acquired the transportation finance business from **General Electric.** This business services the entire supply chain, but a big part of it is the trucking industry. All told, it has net earning assets of US$8.9 billion. More importantly, the brand is strong, and the business will account for 20% of all lending done to the trucking sector in the United States. If this lasts and the economy in the United States stays strong, I expect this acquisition to continue providing for the company.

But Bank of Montreal won't stop there. It acquired advisory firm Greene Holcomb Fisher, which will be rolled into the BMO Capital Markets division. Over the past five years, this firm of 30 bankers has done over 100 deals. If it continues to have similar success, the fees will help the capital markets division continue pushing earnings higher. And the CEO said on the most recent earnings call that the company continues to hold dialogue regarding other deals. I'm on board with that decision.

There is always a little risk when investing in bank stocks, but with BMO it's really quite small. About 2% of its loan book, or $7.6 billion, is to oil and gas companies. There's an additional $8.2 billion in undrawn exposure, but half is investment grade. And in mortgages, 57% of its $101.2 billion in Canadian mortgages is insured, putting it in a pretty safe place.

Here's the deal … Bank of Montreal is doing really well and acquiring key assets to help it push earnings even higher. This makes it possible to pay a quarterly dividend of $0.86 per share at a yield of 4%. If Bank of Montreal can continue growing earnings, I see a bright future for this bank and its investors.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

Category

1. Bank Stocks
2. Investing

Date
2025/07/20
Date Created
2016/09/28
Author
jaycodon