Bank of Montreal: Is the Dividend Guaranteed?

Description

As the saying goes, nothing is guaranteed, right? Most of the time, I would agree with you, but when it comes to **Bank of Montreal** (TSX:BMO)(NYSE:BMO), the dividend is basically guaranteed. I say that because the bank has been through some tumultuous times over its years, and it has never missed a dividend payment. Since 1829 the dividend has been sent to investors through the Great Depression, both World Wars, and the 2007-08 Financial Crisis.

So I have little doubt that the dividend will keep coming. But where will the dividend go in the future? Based on how the company is doing, I'd say it's going up.

Despite concerns about the Canadian economy, the bank was able to push its adjusted net income up by 5% year over year to $1.3 billion with its earnings per share increasing by 4%. Its Canadian operations saw a 6% increase in loans made with an 8% increase in deposits, allowing its adjusted net income to rise by 1% to $562 million. And south of the border, its United States division saw adjusted net income rise by 22% to $289 million.

Its other divisions were also relatively successful. Its capital markets division grew its adjusted net income by 18%, while its wealth management division only dropped by 2%.

To ensure that the company continues to deliver growth to its investors, it has been making a series of smart acquisitions. To help bolster its Capital Markets division, it acquired Greene Holcomb Fisher: an advisory firm with 30 bankers that have done over 100 deals in the past five years. I expect to see Bank of Montreal in the news more as this firm helps companies finish deals.

But the big acquisition was when Bank of Montreal bought the transportation finance business from **General Electric** and rolled out the renamed BMO Transportation Business. This business primarily services the trucking industry with leases. It has net earning assets of US$8.9 billion and accounts for 20% of all lending done to the trucking sector in the United States. I expect management to continue looking for other deals to bolster the bank's different divisions.

One thing that can harm a bank's ability to pay its dividend is the risk it carries. About 2% of its loan book, or $7.6 billion, is currently lent to oil and gas companies. And half of the additional $8.2 billion in undrawn exposure is investment grade. As for mortgages, 57% of its $101.2 billion is insured, which means that the real estate market would have to completely crumble for the bank to be severely harmed.

The company currently pays $0.86 per share, per quarter, which is a comfortable 4.02%. However, management has consistently increased this dividend. Two quarters ago, it was $0.84. So long as earnings continue to improve, management will likely increase the dividend for multiple years to come.

Nothing in life is guaranteed, right? But when it comes to dividends, Bank of Montreal has done basically everything it can to guarantee that its investors will receive a distribution. And if the Great Depression, World Wars, and other calamities haven't stopped the bank, I see little else that can.

CATEGORY

1. Dividend Stocks
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