



Bank of Montreal: A Must-Have Dividend Stock?

Description

The last time I talked about **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) was at the end of November, and I said the one thing I didn't like about the stock was how expensive it was. Had you ignored my concern and bought the stock, you'd be up 9%. But the 9% price improvement is well worth it because Bank of Montreal had a sensational quarter capped with an improvement to the dividend.

The bank saw net earnings come in at \$2.02 per share, which far surpassed the \$1.85 that analysts were predicting for the bank. Further, this was an 11% improvement year over year, which should have any dividend investor excited. This is after \$5.28 billion in revenue — up 6% from the year prior.

The growth was spread across all of the bank's businesses.

In Canada, Bank of Montreal's personal and commercial banking business had respectable growth. Loans and deposits in its personal banking division grew by 4% and 9%, respectively, year over year. And on the commercial side, its loan and deposits grew by 12% and 5%, respectively, compared to last year. All told, net income was \$592 million — up 5% from the previous year.

In the United States, net income was \$286 million — up \$78 million, or 38% from the previous year. A big part of this is thanks to a 25% increase in revenue totaling \$906 million. A big driver of this is the BMO Transportation business it acquired in 2016. This division accounts for 20% of all lending to the commercial-lending business, so the potential is quite lucrative.

BMO Wealth Management had a 15% improvement to net income to \$279 million. But it was the BMO Capital Markets that really stole the show. Its reported net income was \$396 million — an increase of \$155 million, or 65% from the previous year. This is thanks to management fees it gets for consulting on M&A deals, but also thanks to its trading floor and its exchange-traded funds.

Bank of Montreal is in this position thanks to a series of smart acquisitions. I've mentioned the Transportation Finance division, but the bank has made other deals in previous years that have helped.

One was the \$4.1 billion Bank of Montreal paid for Marshall Ilsley Corporation in 2010, which gave it a much larger footprint in the United States (and you can see how that growth is going). Another

acquisition was the takeover of Greene Holcomb Fisher, an advisory firm which has helped with 100 deals in the past five years. The fees from this will continue to be lucrative for Bank of Montreal.

This brings us to what matters most to dividend investors: the increased dividend payment.

During its announcement, management revealed that it had increased the dividend by \$.02 to \$0.88 per share. Although it's a small 2% increase, Bank of Montreal is an amazing dividend stock. Every year since 1829, the company has paid a dividend, even during the Great Depression, both World Wars, and the Financial Crisis. As investors, we want to know that our investments are secure, and Bank of Montreal has always paid its dividend.

Going forward, I believe there will continue to be growth. With interest rates starting to increase in the United States, Bank of Montreal is primed to generate even more income. And with analysts predicting more M&A activity in 2017, I expect fees for the Capital Markets division to get more lucrative. All in all, Bank of Montreal could continue to experience more growth in its dividend.

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