



A TFSA Stock That Is Poised to Hike Dividends in 2018

Description

When deciding about buying dividend stocks for your [Tax-Free Saving Account](#) (TFSA), you should look for some qualities that top dividend stocks have in common.

Companies with solid earning histories, manageable debt levels, and increasing free cash flow are the ones that reward their investors regularly.

For TFSA investors, this step is not too complicated. Pick solid dividend-growth stocks that provide a steady income stream with some potential for capital growth. Keeping this theme in mind, let's determine if **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock fits this criteria.

Dividend history

You can easily find stocks that offer hefty dividends, but you should be very careful before committing your hard-earned dollars, as these dividends may not last. But BMO is different. It's the top dividend stock that you will be comfortable to have in your portfolio if its history has any relevance.

The company has sent dividend cheques to investors every single year since 1829 — one of the longest streaks of consecutive dividends in North America.

With a dividend yield of ~3.80%, BMO pays a \$0.93-a-share quarterly dividend. This payout has increased with an ~8% compound annual growth rate with a manageable payout ratio of 50%. During the past five years, investors who'd bought and held BMO stock made ~53% in total returns. This return may not look too exciting to some investors, but remember, you're investing in a mature company with a manageable risk.

U.S. strength

The other [benefit of investing in BMO](#) is that it has a diversified franchise with a solid presence in commercial banking, retail banking, wealth management, and capital markets. The company also maintains a strong presence in the U.S. with more than 500 branches, mainly in the U.S. Midwest.

In the first-quarter earnings report, BMO showed strong growth from its U.S. operations. Profit surged 24% to \$310 million thanks to the improving U.S. returns as well as stronger commercial loan growth.

“We have the strongest momentum in U.S. [personal and commercial banking] that we’ve had in a very long time,” said BMO chief executive officer Darryl White on a conference call. “We’re indeed very confident in the future.”

Attractive valuations

After about a 7% drop in its stock price from the 52-week high, BMO stock’s valuations have become quite attractive. At the share price of \$98.22 at the time of writing, BMO is trading at a 10.61 forward P/E multiple, showing a significant discount when compared to the industry average.

For your long-term TFSA investments, the most important factor to consider is the company’s dividend growth. BMO rewards its investors with regular hikes in payouts. Over the past decade, BMO’s dividend has nearly doubled.

I think you should consider adding BMO stock to your TFSA portfolio when stock is still depressed and there is a good possibility of further dividend increases.

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