Buybacks Are Ramping Up After U.S. Tax Reform: 3 Stocks That Could Benefit

Description

The U.S. Tax Cuts and Jobs Act, which was enacted in December 2017, has had an immediate impact on the frequency of stock repurchasing in early 2018. The Trump administration had claimed that tax reform would serve to drive domestic investment and wage growth. The total spent by 44 companies on the S&P 500 on employee bonuses or raises thus far reached $5.2 billion, according to research by the *Washington Post.*

After tax reform was passed, **Bank of America** announced a $1,000 bonus for its employees, which will cost the bank upwards of $145 million in 2018. By comparison, the bank plans to spend at least $17 billion on stock buybacks in 2018.

By the middle of February, over $170 billion in stock buybacks had been announced, which more than doubled the $76 billion reported in the same period in 2016-2017. **JPMorgan Chase & Co.** has projected that stock buybacks could surpass $800 billion in 2018. Catalyst Capital, a market research firm, has predicted that $1.2 trillion will be spent on stock buybacks this year. That would count as the largest year for buybacks on record.

There are a number of TSX-listed companies that will be taking advantage of tax reform to launch share-buyback efforts in 2018. Today, we are going to look at three that investors should be monitoring going forward.

CAE Inc. (TSX:CAE)(NYSE:CAE)

CAE is a Quebec-based designer, manufacturer, and supplier of simulation equipment in the aerospace industry. CAE stock has increased 1.8% in 2018 as of close on March 12. The company released its fiscal 2018 third-quarter results on February 9.

In the three months ended December 31, 2017, CAE repurchased and cancelled a total of 984,100 shares at a weighted average of $22.12 per share for a total of $21.8 million. This past quarter, CAE received approval from its board to renew is repurchasing program for more than 5.3 million shares from February 23, 2018, to February 22, 2019.

CAE reported earnings per share of $0.44 in the third quarter, which would have been $0.28 before the U.S. tax reform impact and Asian Aviation Centre of Excellence (AACE) investment. The stock also offers a dividend of $0.09 per share, representing a 1.5% dividend yield.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank stock has dropped 0.82% in 2018 thus far. The bank released its first-quarter results on February 23. In the first quarter of fiscal 2018, Royal Bank repurchased over $920 million of common shares and hiked its dividend by 3%. Chief Financial Officer Rod Bolger said: "Share buybacks continue to be a useful tool to deploy excess capital after fully investing in our business."

Bank of Montreal (TSX:BMO)(NYSE:BMO)

BMO boasts one of the largest U.S. footprints of the major Canadian banks. BMO stock has plunged 2.3% in 2018 so far. In its first-quarter report, BMO announced that it would buy back and cancel 20 million common shares. Its dividend was unchanged in the first quarter at $0.93 per share, representing a 3.8% dividend yield.

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