



Banking on Yield: Is Bank of Montreal (TSX:BMO) Stock a Good Dividend Buy?

Description

Dividend investors often turn to the Canadian banks when searching for reliable and growing distributions that provide attractive [yield](#).

Let's take a look at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) to see if it deserves to be in your portfolio right now.

Diversified operations

Bank of Montreal has a balanced revenue stream coming from personal and commercial banking, capital markets, and wealth management operations.

Investors like the stock for its large U.S. division, which runs more than 500 branches primarily located in the Midwest states. The company has had a presence in the U.S. since the early 80s, and the group has grown significantly through a series of strategic acquisitions. In the first half of fiscal 2019, the U.S. segment contributed 35% of adjusted earnings with solid performances coming from the U.S. commercial and capital markets segments.

Bank of Montreal's commercial banking group is widely viewed as being one of the best among the big [Canadian banks](#).

Low risk

On the risk side, Bank of Montreal's Canadian residential mortgage portfolio stood at \$141.2 billion at the end of fiscal Q2 2019, representing 32% of its overall loan book. This is smaller than some of its peers and makes the bank less likely to take a big hit in the event the Canadian housing market tanks. Insured loans cover 44% of the mortgages, and the loan-to-value ratio on the rest is 55%, so things would have to get pretty bad in the housing market before the bank sees material losses.

Oil and gas exposure makes up about 3% of the loan book.

Bank of Montreal has a CET1 ratio of 11.3%, meaning it is well capitalized.

Measures put in place by the Canadian government to remove the highest-risk buyers from the housing market are working. In addition, mortgage rates have fallen significantly in the past six months, wiping out a good chunk of the increases over the past two years. This gives Canadian homeowners a chance to renew their loans at rates that should be manageable.

Reliable payouts

Bank of Montreal is Canada's oldest bank and is the one with the longest track record of paying dividends. Investors have received a share of the profits every year since 1829.

The board raised the dividend by 6% in the past year. The current quarterly payout of \$1.03 per share provides an annualized yield of 4.2%.

Should you buy?

Bank of Montreal trades at a reasonable 10.5 times trailing 12-month earnings and is down nearly 10% from the 2018 high. If you are searching for a quality buy-and-hold dividend pick for your portfolio, Bank of Montreal should be an attractive choice today.

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aswalker

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