TFSA Income: Should Bank of Montreal Stock (TSX:BMO) Be in Your Portfolio?

Description

Finding a good quality dividend stock that you could hold in your portfolio over a longer period of time isn't an easy task. If you look for that opportunity in the blue-chip space, the shift to quality has already lowered the dividend yields to the point where they don't look attractive.

That said, Canadian banking stocks still trade in a sweet spot where long-term investors, such as those using their Tax-Free Savings Account (TFSA), can find some value. Canada's top banks have very diversified business operations and an oligopoly-type situation at home, while operating under a very sound regulator. That's the reason that these stocks have been very consistent when it comes to rewarding investors.

In general, Canada's top banks distribute between 40% and 45% of their income in dividends with a handsome annual growth. If you are thinking to buy a good quality stock for your TFSA in 2020 to earn passive income, then I would recommend buying **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock. Let's take a deeper look.

Reliable income generator

Bank of Montreal started paying dividends in 1829 and has never missed a payment since. When you pick a stock for your TFSA to earn income, dividend reliability is the key deciding factor and a long history of rewarding investors tells a lot.

In those 190 years, there have been many recessions, political upheavals, and financial crises that BMO endured. While announcing its fourth-quarter earnings report last week, BMO showed again that it's well on track to keep its costs down and continue to produce superior returns for its investors. As part of its drive to cut costs, BMO announced layoffs and took a $357-million charge.

"This is a sizeable move," CEO Darryl White said on the call with analysts, while announcing earnings that beat analysts' expectations. "We're on a new path as far as a continuous improvement of the operating efficiency of the bank, and this charge is designed to accelerate that path as we go forward."

The company's adjusted efficiency ratio, a measure of what it costs to produce a dollar of revenue, will decline to 58% by the end of 2021 after these cost cuts, from 60% in the fourth quarter.

Improving efficiency

BMO has been near the bottom among the biggest Canadian banks over the past eight years based on return on equity. Its price-to-earnings ratio is the second lowest among the top lenders, exceeding only its smaller rival, **Canadian Imperial Bank of Commerce.**

However, the Q4 earnings report suggests that BMO is probably turning the corner when it comes to efficiency. Growing profit from the bank's wealth management and its U.S. operations should keep the lender's cash flows strong, resulting in higher dividends. The U.S. accounts for more than 30% of Bank of Montreal's adjusted net income. As a result, investors can use the bank to get some decent exposure to the Canadian economy.

Bottom line

With an annual dividend yield of more than 4% and quarterly dividend payout of $0.7975 a share, BMO stock is a good buy. With the trailing price-to-earnings multiple of 12, BMO stock also doesn't look expensive and it should be a good addition to any TFSA next year.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/24

Date Created
2019/12/10
Author
hanwar