Want Rock-Steady Dividends for Life? Buy This 1 Bank Stock Right Now

Description

Have you read the news that the war chests of Canada's Big Six banks are filled to the brim? Income investors should be happy with this development, because the banks need to deploy the excess capital. One of the possible options is to increase dividends.

After Q3 fiscal 2021 (quarter ended April 30, 2021), the total excess in common equity tier 1 (CET1) capital is $40.1 billion. When the coronavirus spread like wildfire in 2020, the Office of the Superintendent of Financial Institutions (OSFI) wanted the banks to have shock absorbers and suspend dividend increases and share buybacks.

Right now, OSFI has lifted restrictions, and banks are free to use the excess funds as they deem fit. If you yearn for rock-steady dividends for life, the logical pick is **Bank of Montreal** (TSX:BMO)(NYSE:BMO). The bank stock's dividend track record is longer than any dividend payer on the TSX.

Impact on business divisions

Like its industry peers, dividend pioneer BMO had to increase its provision for credit losses (PCLs) in 2020 because of a weak economic outlook. Delinquencies could rise to record highs due to the health crisis.

Canada's fourth-largest bank increased its PCL by 535% to $1.1 billion in Q2 fiscal 2020 versus Q2 fiscal 2019. The move meant a sacrifice in earnings. BMO's revenue and net income fell 15% and 54% as a result. Its CEO, Darryl White, said then, "We have a strong capital and liquidity position, a disciplined operating plan and very good momentum."

He added that the strength and resilience of BMO's overall diversified business model have been tested and should perform well through the challenges. White's statements are valid and accurate. Despite two World Wars, the Great Depression, and the 2008 financial crisis, BMO did not stop or miss paying dividends.

Longest record and counting

The $82.25 billion bank started sharing some of the profits with shareholders through dividend payments. It's now 192 years and counting. Suppose you invest today; the share price is $127.06 (+34% year to date). The current dividend yield is 3.3%, which should be safe and sustainable given the 46.5% payout ratio.

BMO seems undervalued, too, with its 13.95% trailing P/E ratio. Besides the potential dividend increase, market analysts predict the price to climb to $150 (+18%) in the next 12 months.

Rosy picture in 2021

BMO's financial position at the close of Q2 fiscal 2021 is rock-solid. The bank has $6.9 billion in excess CET1 capital. If you apply the regulatory floor of 9%, not the 11% industry-standard floor, the amount would be $12.6 billion. The anticipated overflow in the delinquency bucket did not materialize.

This year, BMO plans to build out its healthcare franchise through BMO Capital Markets. The goal is to deepen its expertise and expand services in healthcare (biotech and pharmaceuticals) across the enterprise. The sector has the potential to drive growth.

Call of the times

The pandemic isn't over, although the widespread distribution of vaccines could jumpstart the economy's reopening. Meanwhile, the call of times is intelligent investing. If you're creating passive income or building wealth over the long term, prioritize the quality and safety of dividends.

Asset diversification can also mitigate the risks. However, BMO is a no-brainer choice for dividend longevity and money growth if you prefer a one-stock strategy.

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3. Investing

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