



## Should You Buy Bank of Montreal Stock Now?

### Description

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is up 33% in 2021. Investors who missed the rally are wondering if this is a good time to buy BMO stock for their Tax-Free Savings Account (TFSA) or RRSP portfolios.

### Bank of Montreal earnings

Bank of Montreal reported solid fiscal [Q3 2021 results](#). Adjusted net income came in at \$2.29 billion in the quarter, up 82% over the same period last year. Earnings per share increased 86% to \$3.44 on an adjusted basis. The company reported a \$70 million recovery of credit losses compared to provisions for credit losses (PCL) of \$1.05 billion in fiscal Q3 2020.

Return on equity was a solid 17.5% in the quarter, up from 9.4% in 2020. Bank of Montreal finished Q3 with a CET1 ratio of 13.4%. This is a measure of the capital the bank has available to cover potential losses. The banks are required to have a CET1 ratio of at least 9%, so the Bank of Montreal is sitting on significant excess cash.

### Balanced revenue

Bank of Montreal derives its revenue from a range of operations in Canada and the United States. The Canadian personal and commercial banking division reported an adjusted net income of \$815 million in the quarter. Bank of Montreal is known for its strong commercial banking operation and recently received an award as the best commercial bank in Canada, determined by *World Finance*. It is the 7th consecutive year the bank has received this designation.

South of the border, the Bank of Montreal has a large presence primarily located in the Midwest. Adjusted Q3 net income in the U.S. personal and commercial banking business increased by US\$254 million to US\$453 million.

Wealth management adjusted net income came in at \$406 million, up 16% compared to the same

period last year. Net revenue rose 11%.

Capital markets adjusted net income was \$564 million, up 30% year over year. The division announced the creation of an energy transition group during the quarter that will focus on helping clients pursue energy transition opportunities. The focus on [ESG](#) initiatives is growing across several industries, which could be a driver of new revenue opportunities for BMO as it looks to expand its sustainable finance portfolio.

## Dividends

Bank of Montreal paid its first dividend in 1829 and investors have received a chunk of the profits every year since that time. This is a great track record when you consider all the major global economic events that have occurred over the past two centuries.

The Canadian banks put dividend hikes on hold last year due to a directive from the government, but they should get the go-ahead to restart distribution increases before the middle of next year. When that happens, the Bank of Montreal will likely boost the payout by a generous amount, given the size of the cash hoard.

The current payout provides a yield of 3.3%.

## Growth

Bank of Montreal might also use its strong cash position and improved [market capitalization](#) to make new acquisitions to boost long-term growth. It wouldn't be a surprise to see the bank pursue another investment in the United States to expand its retail or wealth management operations.

## The bottom line

The stock isn't as cheap as it was last year, but the Bank of Montreal should be a solid pick for a buy-and-hold RRSP portfolio. The bank is positioned well to benefit from economic growth in the United States and investors could see a big dividend hike in 2022.

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