



## Why BMO Stock Is up +30% YTD

### Description

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock is the fourth largest by market cap. So, it has more room to grow. It is a diversified North American bank that provides essential financial services. In fiscal 2020, 58% of its adjusted net income came from Canada and 31% came from the United States. Its four business segments are Canadian Personal and Commercial Banking (36% of adjusted net income), U.S. Personal and Commercial Banking (24%), Wealth Management (20%), and Capital Markets (20%).

### Why BMO stock is up +30% year to date

Year to date, BMO stock did quite well by climbing more than 30%, beating three other big Canadian banks. Certainly, this kind of price appreciation is not normal for big Canadian bank stocks. BMO stock is not alone in this matter, though. Peer bank stocks of **CIBC** and [National Bank of Canada](#) have also appreciated more than 30% in this period.



Data by YCharts.

The reason for the unusually strong price appreciation is that the Canadian banks are experiencing a strong rebound from the pandemic impact. Specifically, in fiscal 2020, during the pandemic, Bank of Montreal's adjusted net revenue increased steadily by 3% to almost \$23.5 billion.

However, to be prudent about the potential for increased credit losses during a testing time for the economy, the bank boosted its provision for credit losses by three times, to almost \$3 billion versus in fiscal 2019. The provision for credit losses, in turn, dragged down the company's net income. Specifically, the adjusted fiscal 2020 earnings per share (EPS) ended up declining 18% compared to fiscal 2019.

During the pandemic market crash, BMO stock fell to as low as \$60 per share (equating to a normalized price-to-earnings ratio of about 6.4). Even by the end of the calendar year of 2020, the bank stock still had not fully recovered.

A massive jump in expected earnings this fiscal year, because of a normalization of provision for credit losses, quantitative easing, high inflation, and an expanding economy, is contributing to the abnormal rise in the bank stock.

## The frozen dividend

Although BMO stock's price appreciation has been outstanding this year, you'll notice that its dividend has stayed frozen for eight consecutive quarters, or roughly two years. The dividend freeze is happening across the board with its peers as well, as regulators remain cautious in an economy that still has uncertainties revolving around the global pandemic.

The price appreciation coupled with the frozen dividend has led to what some investors feel is an unattractive yield. Because of the recent strong price appreciation and flat dividend, bank stocks could potentially traverse sideways for some time.



BMO Dividend Yield data by YCharts.

That said, there will likely be increased investor interest in the bank stock when it announces a dividend hike after a long wait.

## What should investors do with BMO stock today?

The big Canadian bank stocks — BMO included — are some of the best [dividend stocks](#) to hold for passive income. BMO, in particular, boasted in its 2020 annual report that it had “the longest-running dividend payout record of any company in Canada, at 192 years.” BMO stock is a “hold” today for investors who own it already and a potential “buy” for investors who don’t have sufficient bank exposure in their stock portfolios.

Just keep in mind to normalize your expectations going forward. The bank is likely to increase its EPS by about 5-7% per year in the long run. So, don’t expect a big rally in the bank stock, unless another substantial correction occurs.

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