BMO (TSX:BMO) Makes the Biggest Canadian Bank Acquisition in 20 Years

Description

Bank of Montreal (TSX:BMO)(NYSE:BMO) announced on Dec. 20 it would acquire the U.S. unit Bank of the West from French international banking group BNP Paribas. The US$16.3 billion deal became the largest acquisition in price alone by a Canadian bank in the last 20 years.

What happened?

BMO plans to buy the California-based Bank of the West with excess cash on its balance sheet, taking on $135 billion in assets. BMO will also take on US$56 billion in loans and US$89 billion in deposits. And while it takes on a even more expansion in the United States, it also gives BMO the chance to expand even further.

Combined, BMO and the new acquisition gives BMO a combined $870 billion in assets. On closing, BMO will bring in 1.8 million more customers and add on 514 more branches and offices throughout the United States. Furthermore, it will be available in 32 states, while gathering from 50 states through its digital banking platform.

So what?

It's merely another step in the company's North American growth strategy announced to Motley Fool investors. Furthermore, Bank of the West serves the expanding retail, small business, commercial and wealth clients, all of which have seen growth thanks to thriving e-commerce environments. Combined with BMO's digital data and analytics, management believes the pairing will be entirely complementary.

"With the strength of our performance and our integrated North American foundation, we have never been better positioned to take this next step in our growth strategy and to deliver for the new customers and colleagues we look forward to welcoming to BMO," said Darryl White, chief executive officer of BMO. "This acquisition will add meaningful scale, expansion in attractive markets, and capabilities that will enable us to drive greater growth, returns and efficiencies…We will deliver a highly competitive offering to new growth markets, combining the strength of our digital banking platform and a strong team of bankers to generate leading customer growth."

Now what?

This growth adds yet another reason why it's a great time to pick up BMO stock. While the **TSX** continues to trade down, Motley Fool investors shouldn't let fear get in the way of a great opportunity — especially when even with this solid news, shares traded down 2% on Dec. 20.

This could be from the large price tag, of course. However, BMO was like the other Big Six banks, with plenty of preparations made for an economic downturn. This saw them back at pre-pandemic share prices within a year of the March 2020 crash.

Now, BMO is in a solid financial position. Its latest earnings report saw net income increase 36% year over year, with earnings per share up 36% as well. The bank also increased its dividend by a whopping 25%, now at a 3.97% yield. Further, the company recently plans to buy back 22.5 million shares.

Yet it's still of massive value for Motley Fool investors. BMO trades at 11.33 times earnings as of writing, and 1.68 times book value. Analysts give it a target price of about $154 — a potential upside of 18% as of writing. Shares of the stock are up 32% year to date, so I would jump on the downturn before it heads back in the upward direction — especially with all this new revenue soon to come in.

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Date
2025/08/25
Date Created
2021/12/20
Author
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