



Want Pension-Like Income? The TSX's Dividend Pioneer Nears a 200-Year Track Record

Description

Canada's Big Six banks had strong earnings performances in fiscal 2021, and they all announced [dividend](#) hikes during the earnings season. The average boost was 16.33%, but it was **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) that announced the most significant percentage increase (25%).

Investors expected the [dividend bonanza](#) from the country's top lenders. Besides the enormous excess capital, the Office of the Superintendent of Financial Institutions (OSFI) lifted the ban on dividend hikes and share buybacks in early November 2021.

BMO also planned to spend \$3 billion to repurchase 22.5 million shares. In the year ended October 31, 2021, the \$68.65 billion bank's net income climbed 52% to \$7.75 billion versus fiscal 2020. Notably, its provision for credit losses (PCLs) shrunk to \$20 million from \$2.95 billion last year.

Dividend pioneer

The 204-year-old bank and TSX's dividend pioneer started paying dividends in 1829. By 2029, BMO's dividend track record will be 200 years. Given the incredible feat, Canada's fourth-largest bank is a great source of [pension-like income](#). It also tells that you can hold the stock for life if you invest today.

As of December 23, 2021, BMO trades at \$105.91 per share. Apart from the 44.41% year-to-date gain, current investors delight in the 3.94% dividend. Assuming you own \$75,000 worth of shares, your quarterly dividend is \$738.75. If you do not touch the dividend and reinvest it, your capital will compound to \$162,448.43 in 20 years.

Retained earnings growth

At the close of fiscal 2021, BMO's common equity tier one (CET1) capital stands at \$44.5 billion, a \$1.2 billion increase from Q3 fiscal 2021. The CET1 ratio is 13.7%, a 0.3% quarter-to-quarter increase. According to management, the increases were primarily due to retained earnings growth.

Darryl White, BMO Financial Group's CEO, said, "We delivered another quarter of strong performance with positive operating leverage in each of our diversified businesses, contributing to strong earnings for fiscal 2021." He added, "We've taken action to improve our competitive position through a disciplined approach to expense management, capital allocation, and investment in future growth."

Capital deployment for U.S. expansion

BMO should be more attractive to income investors with its latest move. The bank eyes further expansion in the U.S. by using its existing capital to acquire the Bank of the West, the U.S. subsidiary of French bank BNP Paribas. According to management, the US\$16.3 billion acquisition will strengthen its expansion across the border.

Mr. White said the Bank of the West would add meaningful scale, expansion in attractive markets, and drive greater growth. With 514 additional branches, BMO gains nearly 1.8 million customers instantly. Furthermore, it will enable BMO to deliver a highly competitive offering to new and key growth markets in the United States.

Upgrade by industry peer

Darko Mihelic, an analyst at **RBC** Capital Markets, upgraded BMO to "outperform" from "sector perform" primarily because of the aggressive capital deployment. While there could be a challenge between now and the deal's closing, Mihelic finds the acquisition compelling from a strategic and financial standpoint.

Market analysts also see a upside potential of 18.25% and 25.62% in 12 months. BMO should be the top choice of investors seeking pension-like income considering the growth prospects.

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