



Strong Buy: BMO's Adjusted Earnings to Increase 10% in 2024

Description

Canada's oldest lender will soon complete a historic deal in the country's banking industry. **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) recently announced a US\$16.3 billion deal to acquire the Bank of the West in the United States. If the transaction closes, it will be the largest acquisition by a big bank on record.

Once BMO has the San Francisco-based bank in the bag, it will gain US\$105 billion in assets in addition to 1.8 million new customers. Likewise, its presence will expand to 32 U.S. states. Based on management's estimate, BMO's adjusted earnings will increase by 10% in fiscal 2024. It will also derive cost savings to the tune of US\$670 million.

Robert Wessel, the managing partner of Hamilton Capital Partners, said, "I think if you're a [long-term investor](#), you're probably comfortable with what's happened." He added, however, that the issue for the market is that the very large acquisition was unexpected. Nevertheless, the acquisition is image-building and should make BMO more [attractive to investors](#) in 2022.

Perfect timing

Since he took over the reins, BMO's CEO Darryl White has been improving the bank's efficiency and technology. He believes the timing couldn't be better since it has enormous excess capital to buy the subsidiary of French BNP Paribas. BMO will become North America's fourth-largest commercial bank.

White further added, "All right, have we ever been better-positioned to do something like this? With the combination of our work and our excess capital, the answer is, not even close ... Few things are as natural as this." BMO acquired Harris Bank in 1984 to strengthen its foothold in Chicago. It expanded in Wisconsin when it took over Marshall & Ilsley some 10 years ago.

Different level of competitiveness

According to BMO's personal and business banking chief, Erminia Johannson, the bank had started

implementing a digital strategy that has helped it gather deposits online from 50 U.S. states. Johannson said the system and BMO's digital tools are key factors in getting the most out of the Bank of the West deal.

Johannson further added that BMO focuses on digital-first capabilities. She said, "That chassis, as I like to call it, really has been and is built for more." Moreover, expect the \$88.28 billion bank's commercial banking operations to perk up due to greater exposure to the technology sector and vendor leasing. Also, its lending operations will cater to affluent households in California.

White is confident that BMO can deliver on its earnings promises when the deal closes, notwithstanding the current surge in Omicron-variant cases. He said, "Because what we're thinking about is our ability to compete and serve customers in year two to 200. It fundamentally takes our U.S. franchise to a different level of competitiveness over that period of time."

Dividend pioneer

Canada's fourth-largest bank is TSX's dividend pioneer. Because of its 192-year dividend track record, BMO is the top choice of investors seeking [pension-like income](#). The bank announced a 25% dividend hike in the most recent earnings season, the highest percentage increase among the Big Six banks.

BMO's year-end price is \$136.19 — a total return of 45.9% for 2021. The dividend yield is 3.89% if you invest in the most promising bank stock today.

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