BMO (TSX:BMO) Is Selling a Huge Number of Shares: Why?

Description

The Canadian financial sector was quite stagnant before the pandemic when considering the performance of the **S&P/TSX Capped Financial** in the three or four years preceding the 2020 crash. But it has been on a tear since then. The initial catalyst was the recovery, but it has risen steadily for too long for that to still be the factor.

However, there is one common variable between the two time frames. The pre-pandemic financial sector stagnancy was, in a way, "led" by the Big Five, which didn't see their stocks rise at a considerable pace. Their collective weight kept the sector as a whole following in their path. And now, when the sector is moving up at an incredible pace, it's mainly fueled by the banks' growth.

However, one of the Big Five, **Bank of Montreal** (TSX:BMO)(NYSE:BMO), has initiated a major selloff.

What can 18.1 million shares buy?

A few days ago, Bank of Montreal announced a "bought deal" of 18.1 million common shares at $149 each. The deal is being underwritten by a syndicate led by the BMO capital market. The aim is to generate $2.7 billion to fund part of the purchase price to the U.S.-based Bank of West.

Like most of the Big Five, BMO has a strong presence in the U.S., but it is not comparable to the two giants (**RY** and **TD**), and with this deal, the bank aims to grow its influence and market presence across the border.

It has a sizeable network of over 500 branches in 24 U.S. states and caters to about 1.7 million individual and business customers. It will add well to BMO's 12 million customer base and might be enough to bump it up from the eighth place on the largest banks in North America list.

Is BMO a buy before the acquisition?

BMO is usually a great buy for its dividend. Even now, when it's trading at a 42% premium to its pre-pandemic peak, it's offering a decent 3.5% yield, which will become significantly juicier if the bank enters a correction phase with the rest of the sector and the value drops to more manageable numbers.

The value is currently quite attractive as well, and its long-term capital-appreciation potential, though not really comparable to the growers like **National Bank of Canada**, is still steady enough to consider it as an investment.

And if the financial benefits of the acquisition start showing up in the bank's financials right away, investors might feel more comfortable holding the bank in their portfolio and buying more, so it may see a steady long-term upward trend. However, it might be wise to wait a while before buying.

Foolish takeaway

The bull market for Canadian banks *might* be nearing its end. BMO's dilution step and a bank tax being discussed by policymakers might become the triggers that initiate the long-awaited correction. If that happens, keep an eye on your favourite banks and buy when the dip is fully matured.

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Author
adamothman