



BMO (TSX:BMO): Why Is It Selling US\$2.1 Billion of its Shares?

Description

Canada's Big Six banks had a dividend parade in late November and early December 2021. All of them announced dividend hikes to the delight of investors. The average increase was 15.5%, although it was the **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) that had the most significant percentage increase (25%).

BMO, along with **RBC**, **TD**, **BNS**, **CIBC**, and the **National Bank of Canada**, were flush with cash following strong core earnings and enormous amounts of reserve releases since Q2 fiscal 2021. Besides dividend increases and share buybacks, industry analysts expected the country's largest lenders to actively seek M&As or acquisitions.

On December 20, 2021, BMO and its indirect wholly-owned subsidiary, BMO Harris Bank, signed a definitive agreement with **BNP Paribas** to acquire U.S.-based Bank of the West. Darryl White, BMO Financial Group CEO, said the acquisition will add meaningful scale, expansion in attractive markets, and capabilities that will enable BMO to drive greater growth, returns, and efficiencies.

The deal is worth US\$16.3 billion, and management said that BMO will fund the transaction primarily with excess capital. After Q1 fiscal 2021 (quarter ended April 30, 2021), Canada's fourth-largest bank had \$12.6 billion in excess common equity tier one (CET1) capital.

Sale of common shares

On March 23, 2022, BMO announced plans to sell \$2.1 billion worth of its shares to help fund the purchase of Bank of the West. The \$96.65 billion bank priced the more than 18 million common shares at an offer price of \$149 per share.

BMO received an upgrade in rating from analysts when the acquisition was announced in December 2021. However, Gabriel Dechaine, a veteran bank analyst at National Bank, downgraded his rating for BMO due to the selling of shares. The share price also fell 3.71% to \$148.01 on the day of the announcement.

As of March 29, 2022, BMO trades at \$149.05 per share. Current investors are up 10.46% year to date and receive 3.56% in dividends (annual). Dechaine changed his price target from \$163 to \$151, a potential upside of 1.31% instead of 9.36%. Another reason for Dechaine's reduction in rating and price target is the regulatory hurdle to obtaining approval for the transaction.

While BMO expects to close the transaction by the first quarter of 2023, Dechaine thinks otherwise. He said the final approval from regulators will not come until late Q2 2023. The one-quarter delay might alter earnings forecast for the bank. Dechaine adds that a decelerating earnings momentum is also possible.

More positives than negatives

BMO said it will use the net proceeds from the share offering to finance a portion of the purchase price for its acquisition of Bank of the West and its subsidiaries. Management will use its excess capital to fund the remaining balance. White asserts that BMO has never been better positioned to take the next step in its growth strategy.

The strategic acquisition will further expand BMO's banking presence in key U.S. growth markets. Apart from strengthening its position in three of the top five U.S. markets, Canada's oldest bank will have a footprint in 32 U.S. states.

Furthermore, owning the California-based bank allows expansion in national specialty commercial businesses and an enhanced digital banking platform. I see more positives than negatives for the bank stock in the medium and long term.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. jguest

Category

1. Bank Stocks
2. Investing

Date

2025/08/24

Date Created

2022/04/01

Author

cliew

default watermark

default watermark