



1 Big Bank That Might Have a Mega-Merger Soon

Description

On March 22, 2022, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) offered to sell 18.1 million shares (worth \$2.7 billion) to help fund the purchase of Bank of the West. Scott Chan, managing director of equity research at Canaccord Genuity, said the deal with BNP Paribas to acquire its U.S. subsidiary will define the legacy of Darryl White at BMO. White is the current CEO of Canada's oldest bank.

The price of the [big bank stock](#) fell following the announcement of the share sale. However, on March 29, 2022, BMO raised the fund it needs to pursue the largest deal in Canadian banking sector. The \$96 billion bank will use its excess capital to fill the remaining balance. Thus, it's a green light for the [mega-merger](#) that should close by the end of calendar year 2022.

Biggest splash

CEO White said the acquisition of Bank of the West for US\$16.3 billion is complementary and affordable. While some industry observers say it's a big bet, BMO argued it will add meaningful scale and expansion in attractive markets. The enhanced and capabilities will likewise drive greater growth, returns, and efficiencies.

BMO already enjoys robust growth across the border because of its wholly owned subsidiary BMO Harris Bank. Upon closing of the transaction, the Canadian big bank gains close to 1.8 million customers instantly. Furthermore, it extends BMO's banking presence with Bank of the West's 514 branches and commercial and wealth offices in key U.S. growth markets.

Great opportunity

David Casper, BMO's U.S. CEO and Group Head of its North American Commercial Banking segment, is thrilled with the coming mega-merger. He said, "Bank of the West is a well-run and well-respected organization that will bring complementary capabilities, products and segment expertise to BMO, all of which are accretive to our existing franchise."

Casper added, "It's also a great opportunity to build upon our strong track record of engaging with communities where we operate." Post-transaction, BMO will have a footprint in 32 states along with a strong position in three of the top five U.S. markets. Moreover, it gains as an expanded national specialty commercial business plus a digital banking platform that generates deposits in 50 states.

Overallotment

BMO Capital Markets led the syndicate of underwriters for the equity offering. The group exercised its overallotment option in full for total gross proceeds of \$3.1 billion (20,843,750 common shares).

Regarding the regulatory process to obtain approval, Tayfun Tuzun, BMO's CFO, is optimistic that nothing will prevent the mega-merger from happening. Tuzun said, "We are very cognizant of the environment, but we believe that we have a transaction here that should not pose any issues in meeting the guidelines provided by the regulatory process."

Like BMO, **Toronto-Dominion Bank** has excess capital to pursue M&As. On February 28, 2022, Canada's second-largest bank announced a US\$13.4 billion all-cash agreement to acquire First Horizon, a Memphis-based bank. Expect the two big banks to compete to accelerate business growth in the United States.

Buy and hold

BMO is the TSX's [dividend](#) pioneer, whose dividend track record is 193 years. At \$148.10 per share, the dividend yield is 3.57%. You can buy the big bank stock today and hold it forever.

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