



Bank of Montreal (TSX:BMO) Raises Dividend: Is the Stock a Buy?

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) just reported solid fiscal Q2 2022 results and raised the dividend. Investors who stayed on the sidelines in recent weeks during the pullback are wondering if Bank of Montreal stock is now [undervalued](#).

Bank of Montreal Q2 2022 earnings

Bank of Montreal delivered adjusted net income of \$2.187 billion in the latest three months, up 4% from the same period last year. Adjusted earnings per share came in at \$3.32 compared to \$3.13 in fiscal Q2 2021.

Adjusted return on equity was 15.7, down from 16.7% last year. Bank of Montreal finished the quarter with a CET1 ratio of 16% compared to 13% in the same period in 2021. This occurred as a result of a \$3.1 billion share sale. The cash hoard is significant, but Bank of Montreal is using most of the excess amount to make a large acquisition in the United States.

Canadian personal and commercial banking adjusted net income increased 21% in the quarter on a year-over-year basis, driven by new mortgages and commercial loans.

The U.S. personal and commercial banking operations saw adjusted net income increase by 8%.

Bank of Montreal's wealth management business saw adjusted net income slip 4% to \$315 million in the quarter. Insurance net income rose 17% as a result of improved market conditions.

The capital markets group saw adjusted net income drop to \$453 million from \$565 million in fiscal Q2 2021. The bank booked provisions for credit losses in the most recent quarter compared to a recovery of provisions in fiscal Q2 last year.

Bank of the West acquisition

Bank Montreal is spending US\$16.3 billion to buy Bank of the West. The deal is expected to close by the end of calendar 2022.

Bank of the West will add US\$95 billion in assets, US\$58 billion in loans, and US\$80 billion in deposits. The deal adds more than 500 branches and 1.8 million customers to BMO Harris Bank, the U.S. subsidiary that already has a strong footprint in the American market. Once the acquisition closes, Bank of Montreal will have a presence in 32 states and get a significant boost in California.

Bank of Montreal expects deal synergies to be US\$670 million.

Dividends

The board announced a bonus for investors. Bank of Montreal is raising its quarterly dividend by another 4.5% to \$1.39 per share. That's after the 25% increase it gave investors in fiscal Q1 of this year.

Bank of Montreal has provided investors with a share of the profits every year since 1829.

Should you buy Bank of Montreal stock now?

Bank of Montreal trades near \$134 per share at the time of writing compared to the 2022 high around \$154. The drop appears a bit overdone given the ongoing earnings strength, the increase in the dividends, and the long-term benefits that should arrive from the acquisition of Bank of the West.

Ongoing volatility in bank stocks should be expected as the market tries to figure out if the gains in net interest margins from higher interest rates will offset the slowdown in revenue growth anticipated in the residential mortgage market. Business borrowing could also drop if the economy goes through a recession.

That being said, BMO stock looks cheap at 10.3 times trailing 12-month earnings and should be a solid pick at this level for buy-and-hold investors seeking a top dividend stock for their TFSA or RRSP portfolios.

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