1 Big Bank That Just Boosted the Dividend After Q2 Earnings

Description

Before May 25, 2022, many market analysts were sure that Canadian banks would announce dividend increases when they reported their earnings results for Q2 fiscal 2022. Barclays head of research for Canada, John Aiken, was right on the money with his prediction of another dividend bonanza.

However, **Toronto-Dominion Bank** was the only one among the Big Six that didn't boost dividends. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) kicked off the sector's earnings season and announced a 6% hike in its quarterly dividend effective Q3 fiscal 2023.

In late 2021 (November to December), Canada's oldest bank raised its dividend by 25% — the most significant percentage increase by a giant lender. The latest increase is 31% higher than the prior year. Investors welcomed the news, as evidenced by the bank stock's 2.82% advance since the announcement.

The dividend pioneer has shown its reliability again as an income provider to dividend investors and retirees. The dividend track record of this $91.68 billion bank is only seven years shy of 200 years. At $136.52 per share, common shareholders enjoy a 2.15% year-to-date gain in addition to the 4.07% dividend.

Earnings growth

In Q2 fiscal 2022 (quarter ended April 30, 2022), BMO's net income rose 265% to $4.75 billion versus Q2 fiscal 2021. On a year-to-date basis, net income is $7.68 billion, or 131.6% higher than the first two quarters in the prior fiscal year. Furthermore, BMO's total provision for credit losses (PCL) went down 16.67% to $50 million.

Darryl White, BMO Financial Group's CEO, said, "We continued to deliver good financial performance this quarter, driven by broad-based customer loan growth and strong credit quality in our North American personal and commercial (P&C) businesses."

White also notes the significant contribution from BMO's market sensitive businesses, notwithstanding the super-challenging conditions. Meanwhile, BMO's capital markets division saw its net income drop 20% year over year due to higher expenses and PCL.

Something exciting ahead

Excitement for BMO should build, as the proposed takeover of Bank of the West in the U.S. draws near. The Canadian bank signed a definitive agreement in December 2021 to acquire BNP Paribas's subsidiary. Management expects the US$16.3 cash transaction, funded primarily by excess capital, to close by year-end 2022.

Upon closing, BMO will have additional assets of US$95 billion (US$58 billion in loans and US$80 billion in deposits) on its consolidated balance sheet. More importantly, acquiring the Bank of the West would meaningfully accelerate BMO's growth in the U.S.

BMO's footprint will instantly expand to 32 states, including a scaled entry into the attractive and affluent California market. The plan is to deliver a highly competitive offering to new growth markets. BMO expects to derive around $860 million in annual pre-tax cost synergies annually through operational efficiencies across the combined businesses post-closing.

The forthcoming merger is something to look forward to. A joint integration management team is currently overseeing the ongoing integration planning.

A safe place for your money

Barclay's Aiken said that Canadian banks have strong capital and reserve levels to weather the current storm. The country's fourth-largest lender didn't disappoint investors after last week's earnings release. Indeed, risk-averse investors have a safe place for their money in BMO.

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