



## What Investors Need to Know About Bank of Montreal's Latest Results

### Description

**Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)) reported second-quarter results last week. Canada's fourth-largest bank exceeded expectations. Understanding what drove the results, and how the underlying business is performing, is just as important as headline financial figures.

Compared to the same period a year earlier, revenue increased 9%, net income grew 12% to \$1.1 billion, and diluted earnings per share rose 14% to \$1.60 per share. The bank also delivered a return on equity of just over 14.3%. **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)), the best capital allocator among Canada's big five banks, delivered a return on equity of nearly 21% during the most recent quarter.

Let's look at a little closer at how the business is performing, and look for signs on what the future may hold for Bank of Montreal.

### All earnings are not created equal

Yes, Bank of Montreal beat earnings expectations, but the reason is important to understand.

Better than expected earnings were due primarily to higher than expected trading volume in the bank's capital markets division. Capital markets had a profit of \$305 million, up 17%, driven by healthy trading in fixed income, currencies, commodities, and equities.

European and U.S. banks have seen trading activity decline over the past year, but Canadian banks have remained immune and experienced continued growth. For how long is an important question, and one that investors should consider before investing.

### There is money in wealth management

One of its smallest segments, wealth management, is also its fastest-growing.

Adjusted net income for the segment rose an impressive 36% to \$200 million. A big reason for the stellar performance was the 17% increase in assets under management and administration to \$612

billion. More assets means more income since the bank takes a small percentage of the money it manages on behalf of clients. Adding new clients was important, but so too was the growth in the value of client portfolios aided by advancing stock markets. When the bull market turns bearish, investors should be watching closely to see if wealth management can grow in both good and challenging markets.

Bank of Montreal also added to its international wealth management capabilities with the recent purchase of U.K.-based F&C Asset Management. With this acquisition, Bank of Montreal serves clients across five continents, with approximately half of its assets under management managed on behalf of clients located outside of North America. Having a truly international wealth management business is becoming increasingly important, and is an important competitive differentiator for Canadian banks.

### Dividend growth

Many investors like bank stocks because of the dividend income, but too often we don't take a close enough look at the track-record for dividend increases.

Bank of Montreal raised its quarterly dividend to \$0.78 per share, which equates to a yield of just over 4%. However, its historical rate of dividend increases has not kept pace with other large Canadian banks. Over the past 10 years, Bank of Montreal's dividend has grown, on average, 9% per year. **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)), on the other hand, has grown its dividend by 13% each year. This could make a significant difference to long-term investors.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BMO (Bank Of Montreal)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:RY (Royal Bank of Canada)

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