



Bank of Montreal (BMO)

Updated December 5th, 2021 by Kay Ng

Key Metrics

Current Price:	\$107	5 Year CAGR Estimate:	10.1%	Market Cap:	\$69.7B
Fair Value Price:	\$114	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	01/31/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	02/28/22
Dividend Yield:	3.9%	5 Year Price Target	\$148	Years Of Dividend Growth:	9
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase¹:	6.4%

Overview & Current Events

Bank of Montreal was formed in 1817, becoming Canada's first bank. The past two centuries have seen Bank of Montreal grow into a global powerhouse of financial services and today, it has about 1,500 branches in North America. Bank of Montreal produces about C\$27 billion in revenue each year. At a high level, it generates about 60% of its earnings from Canada and about 32% from the U.S. The bank is cross listed in both New York and Toronto; we use U.S. Dollars throughout the report unless otherwise noted.

Bank of Montreal posted its fiscal Q4 and 2021 financial results on 12/03/21. For the quarter, the bank saw strong results across its business segments, including in the Canadian and U.S. Personal & Commercial Banking, Wealth Management, and Capital Markets segments. Net revenue climbed 10% to C\$6,573 million. Adjusted net income was C\$2,226 million, which was 38% higher year over year, as the bank's results rebounded from the pandemic. This translated to adjusted earnings-per-share (EPS) climbing 38% to C\$3.33 versus the prior year's quarter. The higher earnings were assisted by a lower provision for credit losses (PCL) versus a year ago. Specifically, the bank's PCL ratio on impaired loans was 0.07% versus 0.29% a year ago.

For the fiscal year, BMO's revenue climbed 8% to C\$27.2 billion, and its adjusted EPS jumped 68% to C\$12.96 over fiscal 2020. The higher earnings were primarily due to a lower PCL. Specifically, the bank's PCL ratio on impaired loans was 0.11% in fiscal 2021 versus 0.33% in fiscal 2020. Its adjusted return on equity was 16.7%, up from 10.3% in fiscal 2020.

Management is confident in its participation in the ensuing economic recovery. After the regulator, Office of the Superintendent of Financial Institutions, approved of dividend increases again, BMO raised its quarterly dividend by 25.5% (the highest increase versus the other Big Six Canadian banks) to C\$1.33. This is a vote of confidence in BMO's strong capital position. Its common equity tier 1 ratio was 13.4%. BMO's 3-year EPS growth rate was 13% primarily due to the strong rebound in fiscal 2021. Therefore, we initiate a conservative 2022 EPS estimate at \$10.23 in the face of the new Omicron coronavirus variant, which is believed to be more contagious but thankfully less deadly. Eventually, we may get to the point where it will be like a cold. So, we're not too worried.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$6.04	\$5.91	\$5.79	\$5.23	\$5.66	\$6.27	\$6.81	\$7.09	\$5.95	\$10.13	\$10.23	\$13.37
DPS	\$2.81	\$2.88	\$2.82	\$2.60	\$2.56	\$2.72	\$2.94	\$3.06	\$3.15	\$3.37	\$4.15	\$5.82
Shares¹	651	644	649	643	646	648	639	640	646	650	651	654

From 2012 to 2021, the bank increased EPS by 8.9% in C\$ but when translated to US\$, the growth rate was 5.9% per year. The company estimates medium-term EPS growth of 7-10% per year. However, the actual result would be affected by forex fluctuations between the C\$ and US\$. Through 2026, we use a 5.5% growth rate, to be cautious. We estimate dividend growth of 7.0% per year through 2026. BMO just raised its annualized payout from C\$4.24 to C\$5.32. We set our 2022 dividend estimate based on the forex rate at writing. Keep in mind that the fluctuations in the forex between U.S. dollars and Canadian dollars will affect the effective yield for U.S. shareholders.

¹ Dividend increase on a TTM basis in C\$; Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.3	10.8	11.5	11.4	11.0	11.7	12.0	10.6	10.0	11.2	10.5	11.1
Avg. Yld.	4.6%	4.2%	3.9%	4.5%	3.6%	3.4%	4.5%	4.0%	5.3%	3.5%	3.9%	3.9%

From 2012-2021, BMO's average price-to-earnings ratio was about 11.1. We think a P/E of 11.1 is fair for the expected longer term EPS growth rate of about 5.5%. The current ratio of 10.5 makes the stock fairly valued. We think BMO's yield will not stray far away from a 4% yield range in the long run. As a Canadian stock, BMO's dividends may be subject to a 15% dividend withholding tax for U.S. investors. This tax can potentially be avoided by investing in BMO through a retirement account.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47%	49%	49%	50%	45%	43%	43%	43%	53%	33%	41%	44%

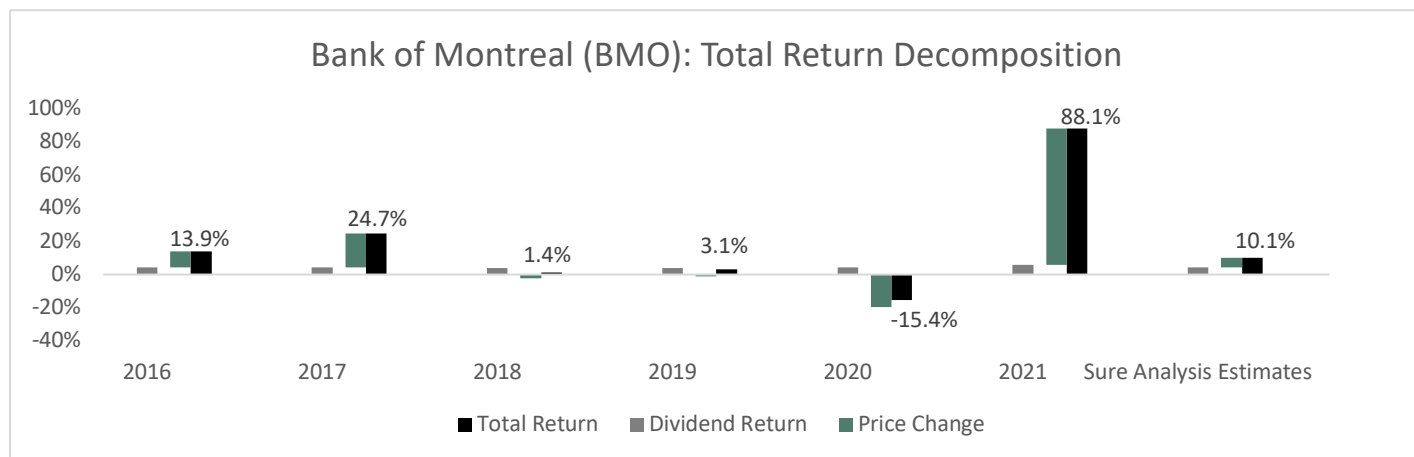
During the Great Recession, BMO maintained the same dividend from fiscal 2009 to 2011 before resuming dividend growth afterwards. Similarly, the regulator restriction led to a dividend freeze of 8 quarters. The solid bank came out with a dividend increase as soon as the ban was lifted. BMO's dividend policy is a payout ratio of 40%-50%. Its payout ratio was higher than normal in 2020 due to higher provision for credit losses from pandemic impacts. We expect BMO's payout ratio to stay within its target range in most years.

The bank's competitive advantage is in the long history and reputation of its brand, as well as its large size (it's the 8th largest bank by asset in North America), and the fact that it's one of the Big Six banks, in a smaller market like Canada. Recessions are tough for banks, but BMO performed admirably during the last two (including the one during the pandemic) by maintaining its dividend in the Canadian currency.

Final Thoughts & Recommendation

We forecast 10.1% in total annualized returns over the next five years for an investment in BMO at current prices, consisting of a yield of 3.9%, 5.5% earnings-per-share growth, and a 1.1% tailwind from a slightly higher price-to-earnings ratio. As a safe income stock that's fairly valued, Bank of Montreal earns a buy rating from Sure Dividend especially on dips.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	15853	16509	16569	15457	15798	16608	17673	19060	18615	21388
SG&A Exp.	5586	6483	7110	6716	6731	6886	6850	8376	7180	7727
D&A Exp.	679	681	686	635	624	670	702	744	1057	1133
Net Profit	4063	4051	3925	3521	3486	4081	4238	4332	3791	6163
Net Margin	25.6%	24.5%	23.7%	22.8%	22.1%	24.6%	24.0%	22.7%	20.4%	28.8%
Free Cash Flow	9551	10623	-3363	1391	-2518	1619	13233	21199	37047	34230
Income Tax	870	1035	829	754	830	988	1524	1139	931	1990

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	525.6	512.3	525.6	487.6	512.8	553.1	589.4	647.2	712.5	797.4
Cash & Equivalents	25228	29952	29341	34524	25451	29804	38411	42997	53789	84519
Accounts Receivable	9202	6618	6719	5844	6732	6036	3413	3518	3520	4121
Goodwill & Int. Ass.	5270	5085	6612	6288	6380	6550	6589	6656	6738	6168
Total Liabilities	495.5	482.6	494.0	457.3	481.2	518.5	554.6	608.4	670.1	751.0
Accounts Payable	9903	8075	7825	7381	8249	8658	8716	9501	9410	11149
Long-Term Debt	29580	25145	24447	19819	116458	132181	144073	148195	138567	150945
Shareholder's Equity	26195	26561	27925	27487	28671	31268	31541	35229	38959	43471
D/E Ratio	1.03	0.88	0.80	0.66	3.69	3.82	4.13	3.82	3.26	3.25

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.8%	0.8%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	0.8%
Return on Equity	16.3%	15.4%	14.4%	12.7%	12.4%	13.6%	13.5%	13.0%	10.2%	15.0%
ROIC	6.4%	7.1%	7.1%	6.6%	3.5%	2.6%	2.5%	2.4%	2.1%	3.3%
Shares Out.	651	644	649	643	646	648	639	640	646	650
Revenue/Share	24.60	25.41	25.55	23.88	24.45	25.47	27.40	29.76	28.99	32.97
FCF/Share	14.82	16.35	-5.19	2.15	-3.90	2.48	20.52	33.10	57.69	52.77

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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