



Bank of Montreal (BMO)

Updated December 13th, 2024 by Kay Ng

Key Metrics

Current Price:	\$99	5 Year CAGR Estimate:	7.8%	Market Cap:	\$73B
Fair Value Price:	\$84	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/30/25
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	02/26/25
Dividend Yield:	4.5%	5 Year Price Target	\$117	Years Of Dividend Growth¹:	12
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Bank of Montreal was formed in 1817 and became 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 2,000 branches (including Bank of the West branches) in North America. It generates about 45% of earnings from the U.S. (including Bank of the West) and the rest primarily from Canada. 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 reported its fiscal Q4 and full-year 2024 financial results on 12/05/24. For the quarter, compared to a year ago, revenue rose 7.7% to C\$9.0 billion, while net income climbed 35% to C\$2.3 billion and diluted earnings per share ("EPS") rose 34% to C\$2.94. This jump in earnings was primarily due to the reversal of a fiscal 2022 legal provision related to a lawsuit associated with a predecessor bank. Adjusted net income fell 31% to C\$1.5 billion and adjusted diluted EPS fell 35% to C\$1.90. Higher adjusted provision for credit losses ("PCL") of C\$1.5 billion (versus C\$446 million a year ago) weighed on earnings. The PCL on impaired loans to average net loans and acceptances was 0.66% for the quarter, up from 0.25% a year ago. The bank raised its quarterly dividend by 2.6% to C\$1.59 per share, an annual payout of C\$6.36.

For the fiscal year, adjusted revenue rose 12% to C\$32.8 billion, while adjusted net income fell 15% to C\$7.4 billion. Adjusted diluted EPS also fell 18% to C\$9.68, which equates to US\$6.90. Average net loans & acceptances, and average deposits rose 2.0% and 7.9%, respectively, to C\$678 billion and C\$982 billion. The bank's common equity tier 1 ratio remained solid at 13.6%, up from 12.5% a year ago. The adjusted return on equity was 9.8%, down from 12.6% in the prior year. We initiate our fiscal 2025 EPS estimate at \$7.60.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$5.23	\$5.66	\$6.27	\$6.81	\$7.09	\$5.95	\$10.13	\$9.85	\$8.68	\$6.90	\$7.60	\$10.66
DPS	\$2.60	\$2.56	\$2.72	\$2.94	\$3.06	\$3.15	\$3.37	\$4.03	\$5.32	\$4.46	\$4.47	\$5.98
Shares¹	643	646	648	639	640	646	650	677	721	730	735	764

From 2015 to 2024, the bank increased EPS by 3.7% in C\$ but when translated to US\$, the growth rate dropped to 3.1% per year. The company estimates medium-term EPS growth of 7-10% per year. However, actual results will be affected by economic conditions, management execution, and forex fluctuations between the C\$ and US\$. In the last three and five years, BMO did not meet its earnings growth objective. Assuming a normalization, the stock could deliver better results through 2030. For this period, we use a 7% EPS growth and 6% DPS growth rate.

Although in fiscal Q4 2024, BMO only raised its dividend by 2.6%, notably, it typically increases its dividend twice a year. So, the trailing-12-month increase was 5.4%. We set our 2024 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 Years of Dividend Growth in Canadian dollars; 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.4	11.0	11.7	12.0	10.6	10.0	11.2	10.4	9.8	11.7	13.0	11.0
Avg. Yld.	4.5%	3.6%	3.4%	4.5%	4.0%	5.3%	3.5%	3.9%	4.5%	4.9%	4.5%	5.1%

From 2015-2024, BMO's average price-to-earnings ratio was 11. From 2020 to 2024, it was 10.6. We think a P/E of 11.0 would make sense if BMO achieved a higher EPS growth rate of ~7% through 2030. The current P/E of 13 makes the stock overvalued. We think BMO's yield will not stray far away from a 4-5% 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

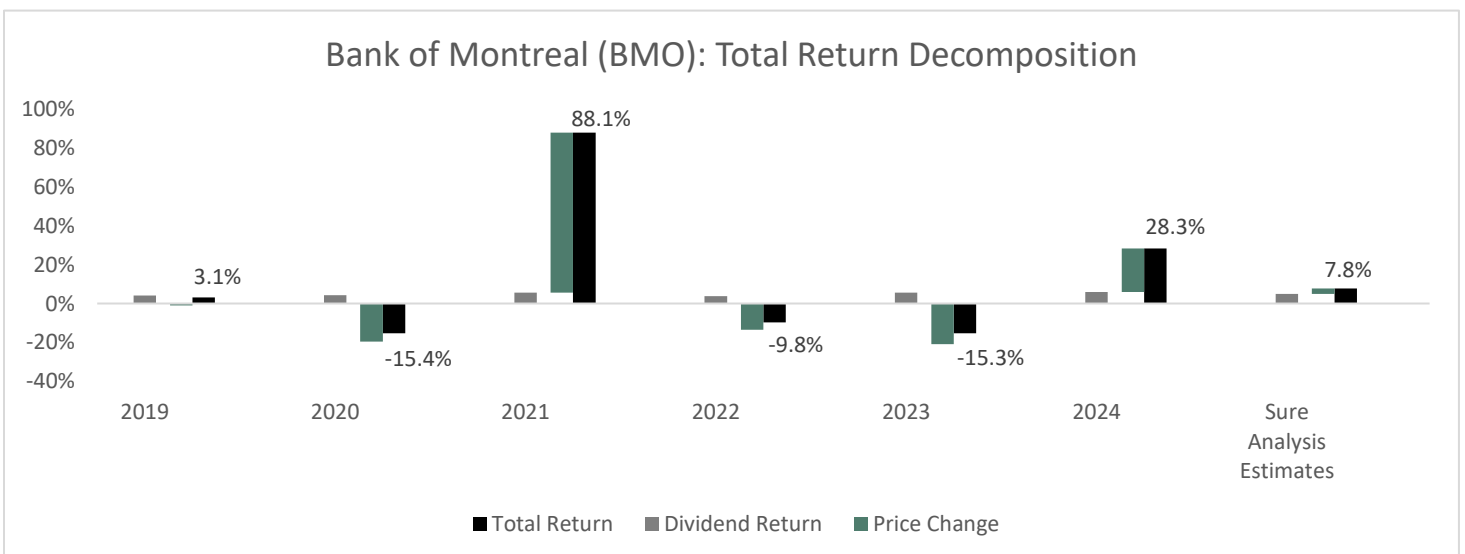
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
50%	45%	43%	43%	43%	53%	33%	41%	61%	50%	65%	59%	56%

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 eight quarters during the COVID-19 pandemic. BMO came out with a dividend increase as soon as the ban was lifted. BMO's dividend policy is for a payout ratio of 40%-50%. Its payout ratio was higher than normal in 2020 and 2023 due to higher provision for credit losses from a more negative macroeconomic outlook. We expect BMO's payout ratio to stay within its target payout ratio range in most years. The bank's competitive advantage is in the long history and reputation of its brand, its large size. It's a top 10 U.S. bank by assets with a footprint in 32 states, a top five commercial lender in North America, and 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 7.8% in total annualized returns over the next five years for an investment in BMO at current prices, consisting of a yield of 4.5%, 7.0% earnings-per-share growth, and a 3.3% headwind from price-to-earnings ratio compression. Currently, we rate Bank of Montreal as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	15457	15798	16608	17673	19060	18615	21388	19996	24490	23540
SG&A Exp.	6716	6731	6886	6850	8376	7180	8042	6702	10570	
D&A Exp.	635	624	670	702	744	1057	1133	1075	1555	1555
Net Profit	3521	3486	4081	4238	4332	3791	6163	10514	3235	5337
Net Margin	22.8%	22.1%	24.6%	24.0%	22.7%	20.4%	28.8%	52.6%	13.2%	22.7%
Free Cash Flow	1391	-2518	1619	13233	21199	37047	34230	2726	5865	20180
Income Tax	754	830	988	1524	1139	931	1990	3378	1101	1622

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (B)	487.6	512.8	553.1	589.4	647.2	712.5	797.4	837.1	935.1	1013
Cash & Equivalents	36219	26910	30469	38451	43130	49873	81953	68482	59340	49420
Accounts Receivable	5844	6732	6036	3413	3518	3520	4121	4903	7054	28910
Goodwill & Int.	6288	6380	6550	6589	6656	6738	6168	5495	15870	15600
Total Liabilities (B)	457.3	481.2	518.5	554.6	608.4	670.1	751.0	784.9	879.4	952.9
Accounts Payable	7381	8249	8658	8716	9501	9410	11149	12441	14260	37520
Long-Term Debt	19819	116458	132181	124845	148195	138567	150945	161511	177320	186290
Shareholder's Equity	27487	28671	31268	31541	35229	38959	43471	50251	53300	59100
D/E Ratio	0.66	3.69	3.82	3.58	3.82	3.26	3.25	3.09	3.18	3.08

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	0.8%	1.3%	0.4%	0.5%
Return on Equity	12.7%	12.4%	13.6%	13.5%	13.0%	10.2%	15.0%	22.4%	6.2%	9.3%
ROIC	6.6%	3.5%	2.6%	2.6%	2.5%	2.1%	3.3%	5.1%	1.4%	2.2%
Shares Out.	647	646	652	645	640	642	649	666	711	729
Revenue/Share	23.88	24.45	25.47	27.40	29.76	28.99	32.97	30.04	34.47	32.31
FCF/Share	2.15	-3.90	2.48	20.52	33.10	57.69	52.77	4.09	8.25	27.70

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

Disclaimer

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