

## Bank of Montreal

## Minor setback, but not thesis changing

Reiterate Rating: BUY | PO: 140.00 CAD | Price: 122.31 CAD

## Underwhelming quarter

Bank of Montreal-BMO stock underperformed peers (~400bp) after reporting 1Q24 core EPS of \$2.56 that missed our/cons \$3.01/\$3.02 estimates due to weaker revenue (included -15c impact tied to hedging mark-to-market), higher PCLs/provisions (included \$154mn performing PCL build on the back of model updates, migration). IFRS 17 adoption also weighed on revenues vs. BofA/consensus expectations. Positively, the common equity tier 1 (CET1) capital ratio increased 30bp QoQ to 12.8% (vs. 11.5% regulatory minimum), with mgmt. announcing an end to the DRIP discount. We see BMO as comfortably positioned on capital to navigate an uncertain macro backdrop, while positioned to capitalize on growth opportunities. Reduce PO to \$140 (\$104 USD) from \$145 (\$109). Reiterate Buy rating (see p. 3 for explanation of PO change).

## Margin stability expected

Net interest margin (NIM) fell 9bp QoQ to 1.58% as stable margins in the P&C businesses were offset by large declines in Wealth Management, Corporate segments. Mgmt. expects NIM to be broadly stable on the consolidated level for the remainder of 2024. Purchase accounting accretion to fall \$300mn in 2024 vs. 2023. Mgmt. guided for net revenues in the corporate segment (to flow through NII) to average -200-225mn/quarter for the remainder of the year, significantly worse vs. our prior expectations. We forecast NII (net interest income) growth of 2% YoY in FY24, all-bank NIM declining 4bp.

## PPPT to improve

On all-bank level, mgmt. sees 1Q as the low point for revenues, high point for expenses and expect to deliver operating leverage for FY24. We forecast ~2% of operating leverage in 2024. During the earnings call mgmt. outlined the following: capital markets PPPT (pre-provision, pre-tax earnings) to average \$625-650mn/quarter for the remainder of the year vs. 473mn reported for 1Q24 with mgmt. noting pick-up in activity levels in Jan vs. Nov/Dec; mid-single digits YoY commercial loan growth on both sides of the border by the end of the full year; potential to grow US deposits as it continues to leverage the Bank of the West franchise.

## Franchise positioning, execution positives

While we came into today's print expecting a weak quarter....continued on page 3

Estimates (Oct) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.25	11.82	11.11	12.81	13.56
GAAP EPS	20.36	6.20	10.17	12.73	13.48
EPS Change (YoY)	2.2%	-10.8%	-6.0%	15.3%	5.9%
Consensus EPS (Bloomberg)			12.19	13.18	14.28
DPS	5.44	5.80	6.10	6.41	6.73
EPS (BMO - C\$)	13.25	11.82	11.11	12.81	13.56
DPS (BMO - C\$)	5.44	5.80	6.10	6.41	6.73
Valuation (Oct)					
P/E	9.2x	10.3x	11.0x	9.5x	9.0x
GAAP P/E	6.0x	19.7x	12.0x	9.6x	9.1x
Dividend Yield	4.4%	4.7%	5.0%	5.2%	5.5%

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Timestamp: 27 February 2024 10:10PM EST

27 February 2024

## Equity

## Key Changes

(C\$)	Previous	Current
Price Obj.	145.00	140.00
2024E Rev (m)	33,154.8	32,228.0
2025E Rev (m)	34,917.8	34,595.9
2026E Rev (m)	36,099.9	35,761.7
2024E EPS	11.90	11.11
2025E EPS	13.00	12.81
2026E EPS	13.75	13.56

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## Stock Data

Price (TOR / NYS)	122.31 CAD / 90.39 USD
Price Objective	140.00 CAD / 104.00 USD
Date Established	27-Feb-2024 / 27-Feb-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	102.67 CAD - 132.51 CAD
Market Value (mn)	88,719 CAD
Free Float	96.3%
Average Daily Value (mn)	402.51 USD
Shares Outstanding (mn)	725.4 / 725.4
BofA Ticker / Exchange	YBMO / TOR
BofA Ticker / Exchange	BMO / NYS
Bloomberg / Reuters	BMO CN / BMO.TO
ROE (2024E)	11.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment

# iQprofile<sup>SM</sup> Bank of Montreal

## Income Statement Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	16,082	18,740	19,317	20,716	21,635
% change	12.4%	16.5%	3.1%	7.2%	4.4%
Net Fee Income	10,181	12,344	12,911	13,880	14,127
Securities Gains / (Losses)	0	0	0	0	0
Total Operating Income	26,263	31,084	32,228	34,596	35,762
Operating Expenses	(14,511)	(18,713)	(18,992)	(19,861)	(20,313)
% change	-9.0%	29.0%	1.5%	4.6%	2.3%
Provisions Expense	(313)	(1,473)	(2,453)	(2,141)	(2,142)
% change	1,547.4%	370.6%	66.5%	-12.7%	0.1%
Operating Pre-Tax Income	11,709	11,252	10,895	12,707	13,419
Operating Net Income to Comm S/Hold.	8,808	8,392	8,055	9,308	9,849
GAAP Net Income	9,039	8,735	8,412	9,666	10,206

## Balance Sheet Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	1,173,397	1,347,006	1,361,716	1,475,840	1,529,626
Average Interest Earning Assets	983,310	1,146,001	1,204,674	1,256,053	1,309,892
Total Gross Customer Loans	395,888	470,928	468,322	493,591	520,495
% change	24.9%	19.0%	-0.6%	5.4%	5.5%
Total Customer Deposits	784,172	915,863	944,863	974,417	1,005,151
% change	12.9%	16.8%	3.2%	3.1%	3.2%
Tangible Equity	57,252	47,193	51,887	56,485	61,393
Common Shareholders' Equity	64,730	69,137	73,070	77,668	82,576

## Key Metrics (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	1.64%	1.64%	1.60%	1.65%	1.65%
Effective Tax Rate	22.8%	22.4%	22.8%	23.9%	23.9%
Loan / Deposit Ratio	50.5%	51.4%	49.6%	50.7%	51.8%
Tangible Common Equity / Assets	4.9%	3.5%	3.8%	3.8%	4.0%
ROA	0.80%	0.65%	0.60%	0.67%	0.68%
ROE	15.2%	12.6%	11.4%	12.3%	12.3%
RoTE	17.4%	16.1%	16.3%	17.2%	16.7%
Dividend Payout Ratio	41.1%	49.1%	54.9%	50.0%	49.6%
Efficiency Ratio (Cost / Income Ratio)	55.3%	60.2%	58.9%	57.4%	56.8%

## Quality of Earnings (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	38.8%	39.7%	40.1%	40.1%	39.5%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0.66%	0.81%	0.88%	0.81%	0.75%

## Company Sector

Banks-Multinational/Universal

## Company Description

Bank of Montreal is the third largest Canadian bank by market capitalization, and offers a wide array of financial services offerings across Canada and in the US. BMO is more concentrated on commercial lending than its Canadian peers, with large C&I books in both Canada and the US. Recently, BMO has taken action to drive greater efficiency within Canadian banking.

## Investment Rationale

We believe that the Bank of Montreal - BMO offers an attractive risk/reward given deal synergies (Bank of the West), strong execution, geographic diversification (55% Canada / 45% US), and conservative underwriting (positive heading into a slowing macro backdrop).

## Stock Data

Average Daily Volume	4,449,126
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2023	2024
Q1	3.06A	2.56A
Q2	2.88A	2.74E
Q3	2.94A	2.95E
Q4	2.93A	2.86E

## Key Changes

(C\$)	Previous	Current
Price Obj.	US\$109.00	US\$104.00
2024E EPS	11.90	11.11
2025E EPS	13.00	12.81
2026E EPS	13.75	13.56

...continued from page 1

## Franchise positioning, execution positives

While we came into today's print expecting a weak quarter, results were undoubtedly worse than expected. That said, no change to our constructive thesis as we view BMO as one of the best managed Canadian banks (although investors may need a reminder via some clean/solid quarters), with an idiosyncratic opportunity to gain market share away from US regional banks, many of which remain in a capital optimization mode. Revenue synergies from BoW while delayed should still accrue over the medium term. We revise FY24/25e EPS -6.7%/-1.4% to \$11.11/\$12.81. Stock trading at 11x 2024e P/E vs. 11x peer median, 1.2x YE24e BV vs. 12% avg. ROE forecast. Reduce PO to \$140 (\$104 USD) from \$145 (\$109). Reiterate Buy rating.



**Exhibit 1: BMO 1Q24 earnings variance table**

Earnings results vs. BofA and consensus estimates

<b>BMO 1Q24 (C\$mn)</b>	<b>Actual</b>	<b>Cons</b>	<b>vs. Cons</b>	<b>BofAe</b>	<b>vs BofAe</b>
<b>Consolidated</b>					
Net Income	1,893	2,177	-13.0%	2,175	-13.0%
Revenue	7,850	8,373	-6.2%	8,230	-4.6%
Expense*	4,783	5,008	-4.5%	4,920	-2.8%
PTPP	3,067	3,365	-8.8%	3,309	-7.3%
PCLs	627	507	23.8%	520	20.5%
Net Interest Income	4,735	5,024	-5.8%	4,934	-4.0%
Tax Rate	22.4%	23.6%	-120bp	20.3%	210bp
Issuance/(Buybacks) (mn shares)	4.4	2.8	64.7%	5.0	-8.0%
Adj. EPS	2.56	3.02	-15.2%	3.01	-14.9%
<b>Canada P&amp;C</b>					
Net Income	925	905	2.2%	932	-0.7%
Revenue	2,778	2,794	-0.6%	2,808	-1.1%
Expense	1,205	1,244	-3.1%	1,258	-4.2%
PTPP	1,573	1,550	1.5%	1,550	1.5%
PCLs	295	299	-1.2%	273	8.0%
Net Interest Income	2,141	2,131	0.5%	2,094	2.2%
Loan Growth (QoQ)	1.0%	1.0%	0bp	-1.4%	240bp
NIM	2.77%	2.73%	4bp	2.72%	5bp
<b>US P&amp;C</b>					
Net Income	635	668	-4.9%	683	-7.1%
Revenue	2,454	2,490	-1.5%	2,466	-0.5%
Expense	1,366	1,483	-7.9%	1,406	-2.8%
PTPP	1,088	1,007	8.0%	1,060	2.6%
PCLs	290	179	61.6%	206	40.5%
Net Interest Income	2,058	2,038	1.0%	2,051	0.3%
Loan Growth (QoQ)	-2.3%	-0.4%	-190bp	-1.0%	-130bp
NIM	3.86%	3.84%	2bp	3.82%	4bp
<b>Wealth</b>					
Net Income	241	338	-28.8%	328	-26.5%
Revenue	1,328	1,437	-7.6%	1,442	-7.9%
Expense	996	987	0.9%	1,009	-1.3%
PTPP	332	450	-26.1%	433	-23.3%
PCLs	13	3	345.4%	1	1186.2%
<b>Capital Markets</b>					
Net Income	408	441	-7.5%	417	-2.2%
Revenue	1,589	1,732	-8.3%	1,644	-3.4%
Expense	1,095	1,084	1.1%	1,056	3.7%
PTPP	494	649	-23.8%	589	-16.1%
PCLs	(22)	35	-163.6%	40	-155.6%
<b>Corp</b>					
Net Income	(316)	(136)	132.3%	(139)	128.0%
Revenue	(299)	(91)	226.8%	(36)	731.6%
Expense	121	149	-18.6%	191	-36.7%
PTPP	(420)	(240)	74.9%	(227)	84.9%
PCLs	51	5	920.0%	0	-

Source: BofA Global Research estimates, VisibleAlpha, company filings

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Bank of Montreal (YBMO / BMO)

Our \$140 PO (US\$104) is based on applying a P/BV multiple of 1.4x (50% weight) to our YE24e BV and a 12.5x P/E (50% weight) multiple to our 2024e P/E. These multiples are in line with the median of the group (12.0x P/E, 1.4x P/B).

Downside risks: 1) a Canadian and/or U.S. recession that would drive higher than expected credit costs, 2) deterioration in capital markets activity, 3) a dramatic shift in the interest rate outlook, and 4) unforeseen risks tied to the integration of Bank of the West

Upside risks to our PO: 1) a stronger economy/growth, 2) better than expected synergies from the Bank of the West acquisition, and 3) an economic soft landing that leads to reduce funding cost pressures while asset quality holds up

## Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala



## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

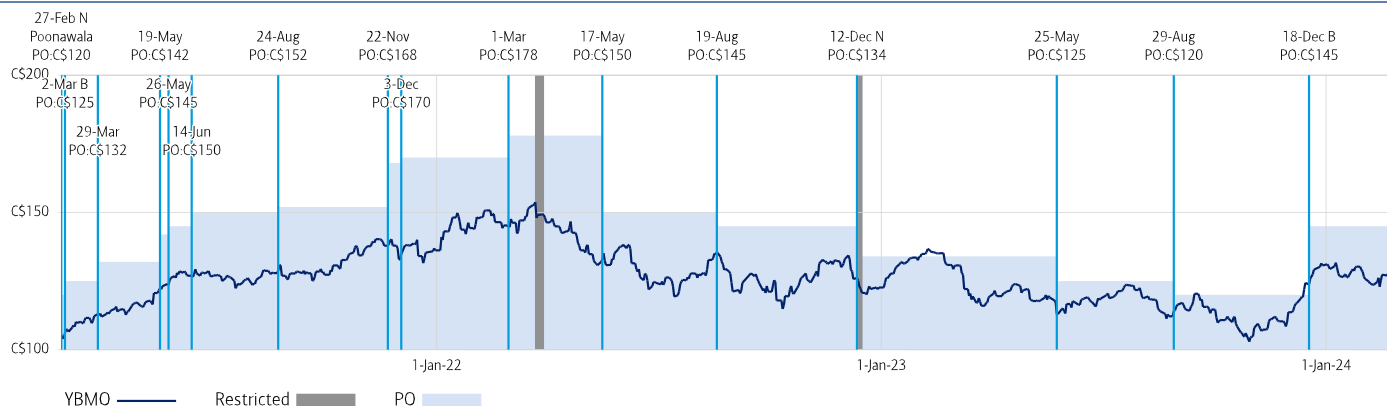
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# Disclosures

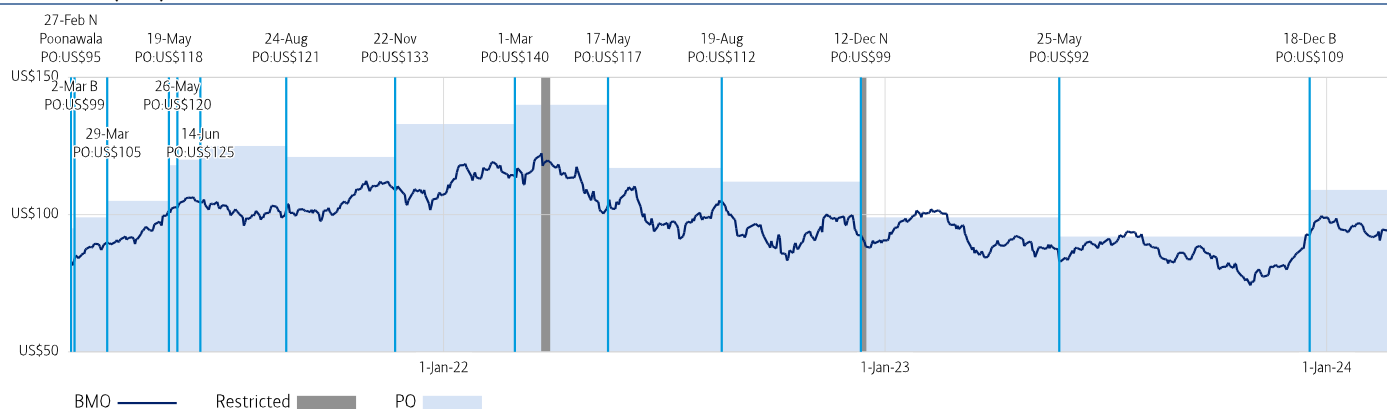
## Important Disclosures

### Bank of Montreal (YBMO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Bank of Montreal (BMO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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