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BMO



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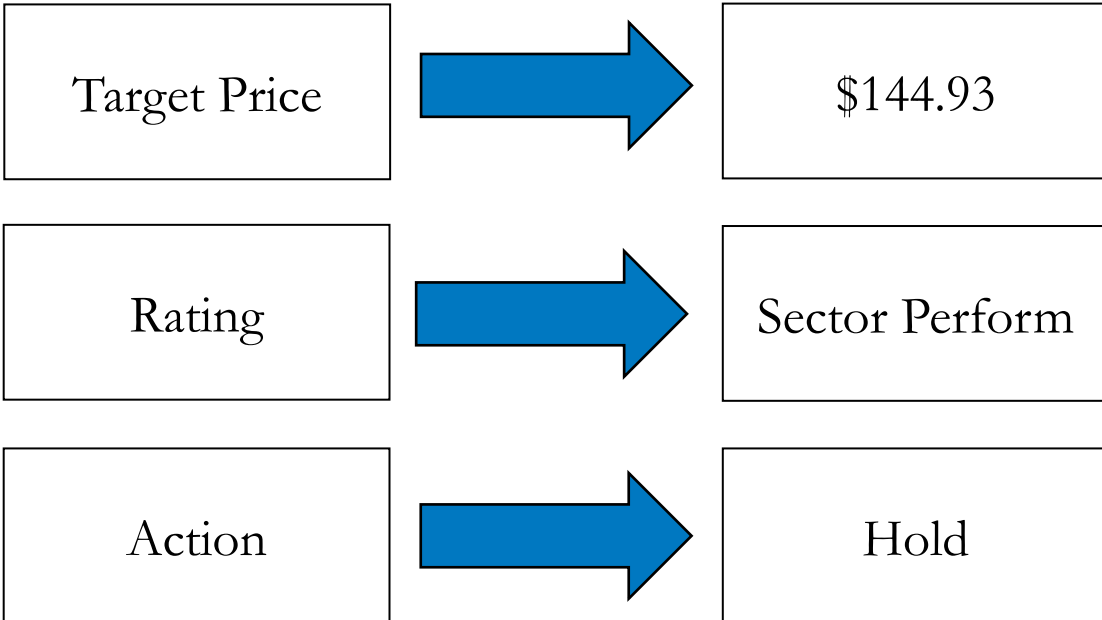
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Summary

Recommendation



Rationale

- Aggressive CapEx spending will increase revenues
- Discussion of Equity Dilution
- Interest Rate increases should increase revenues
- Dividend growth expecting to stay constant



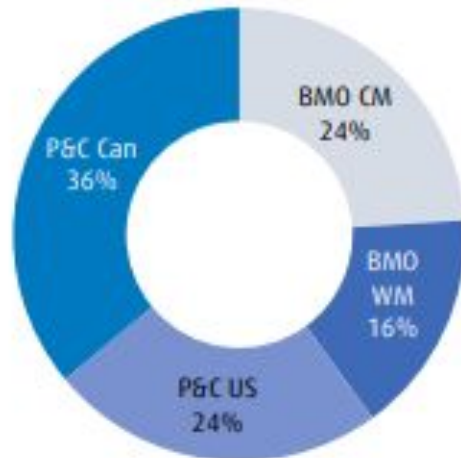
Overview



Company History

- Originally founded in 1817, the Montreal Bank became Canada's first bank and issued the country's first uniform currency.
- Helped to create an early securities market and sophisticated financial system, resulting in the development of the TSX.
- Has made 40 acquisitions in the past 38 years; most recent acquisition being Bank of the West for US\$16.3 billion, making it the largest acquisitions ever by a Canadian bank.

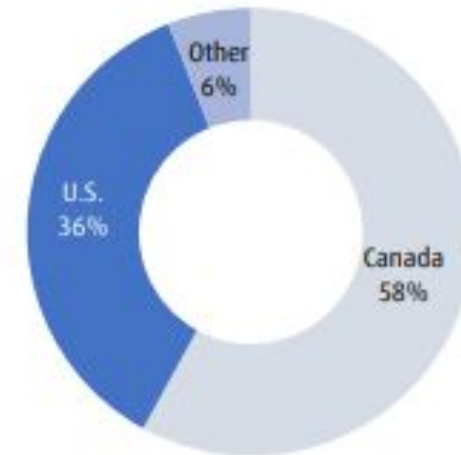
F2021 Reported Net Income by Operating Group



Company Overview

- Provide Personal and Commercial Banking to over 12 million customers across Canada and the U.S, with a network of over 1400 branches, contact centres, and digital banking platforms.
- Serves full range of clients with a wide spectrum of asset, wealth management, and transitioning wealth
- North American-based financial services provider offering a complete range of products and services to corporate, institutional, and government clients.

F2021 Reported Net Revenue by Geography



Trends

Market

- Earnings growth compared to P/E expansion has become the major driver of market performance this year
- An EPS-driven market requires more attention compared to one driven by P/E expansion, as it is what many investors have become used to.
- With interest rates going up BMO is hoping bring rates back to their pre-pandemic levels (of 1.75%) by next April.

Industry

- Bank of Montreal is selling about C\$2.7 billion (\$2.1 billion) in shares to help fund its purchase of Bank of the West from BNP Paribas SA.
- The purchase of Bank of the West will extend its retail footprint into the western U.S. and expand its commercial business.
- Dividend Yield (Yearly as well as 5- Year Avg) is considerably higher in comparison to sector and industry figures

Composition of S&P 500 Price Return

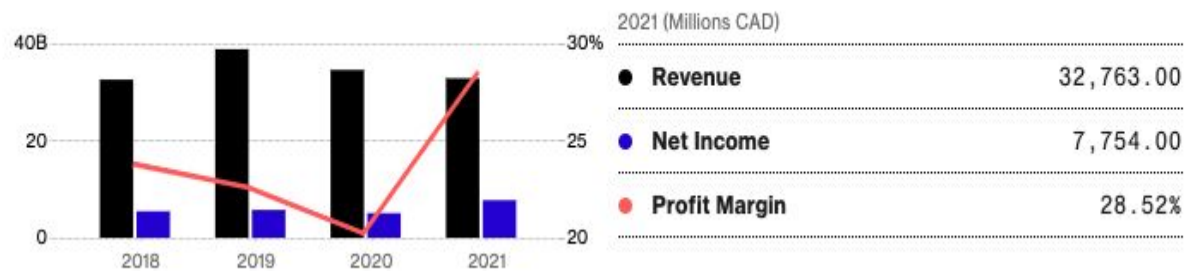
2021 is YTD through 10/31/21



Source: BMO Capital Markets Investment Strategy Group, FactSet, Bloomberg.

Income Statement

Quarterly Annual



Threats

Competitive Risk

- In terms of the number of branches, the bank lags behind the top 3 Canadian banks
- Overdependence on Canada and US, and limited global presence

Market Risk

- The Russian-Ukraine war is the second major event that has hit the global economy in two years
- Fiscal and monetary policymakers dealing with already-high debts and inflation, are in a much weaker position to deal with the fallout.

Industry Risk

- Slowing consumer loan growth in Canada affecting Canadian banks
- Long term risk of neo banks reducing traditional banks market share in Canada



Governance

- 25% of executive variable pay funding is tied to the completion of their strategic objectives or to nonfinancial goals
- All 13 directors with the exception of the CEO are all independent and 3 of the 4 standing committees are chaired by women
- No hedging of BMO securities allowed
- 2 of the 4 standing committee oversee leadership succession planning
- Annual external audit of BMO's SOX controls and periodic independent reviews of the corporate audit functions



Social

- Enterprise NPS has improved from 36 in fiscal 2017 to 55 in fiscal 2021, translating loyalty into growth
- Year over year there is a 74% increase in people of colour hires in leadership roles.
- Established the BMO Sustainable and Transition Finance Professorship at the Haskayne School of Business at the University of Calgary

Environmental

- Joined market-leading initiatives including the Net-Zero Banking Alliance, Partnership for Carbon Accounting Financials, and Principles for Responsible Banking
- Set goal of 30% reduction in our operational emissions by 2030 from a 2019 baseline

Source(s): 2021 Sustainability report

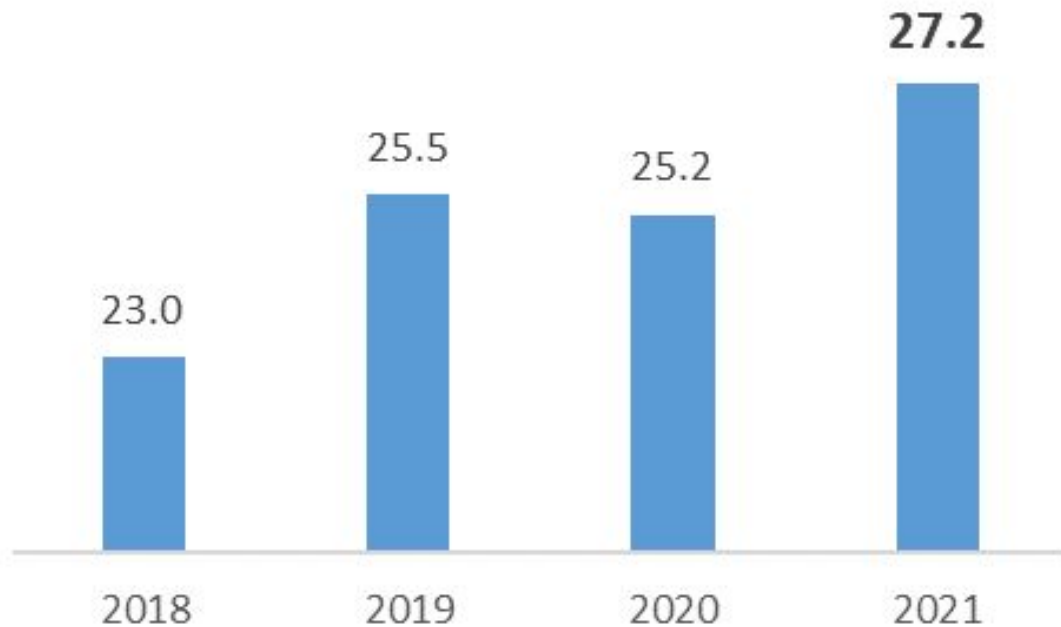
BMO KPI



Net Revenue (C\$ billions)

- Adjusted

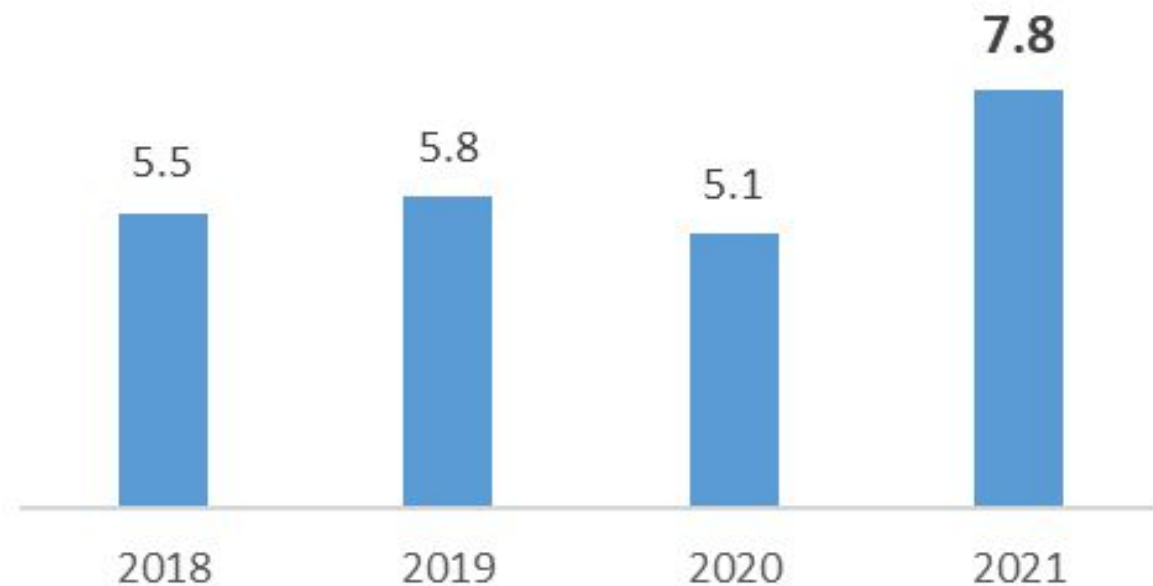
Net Revenue



Net Income (C\$ billions)

- Adjusted

Net Income

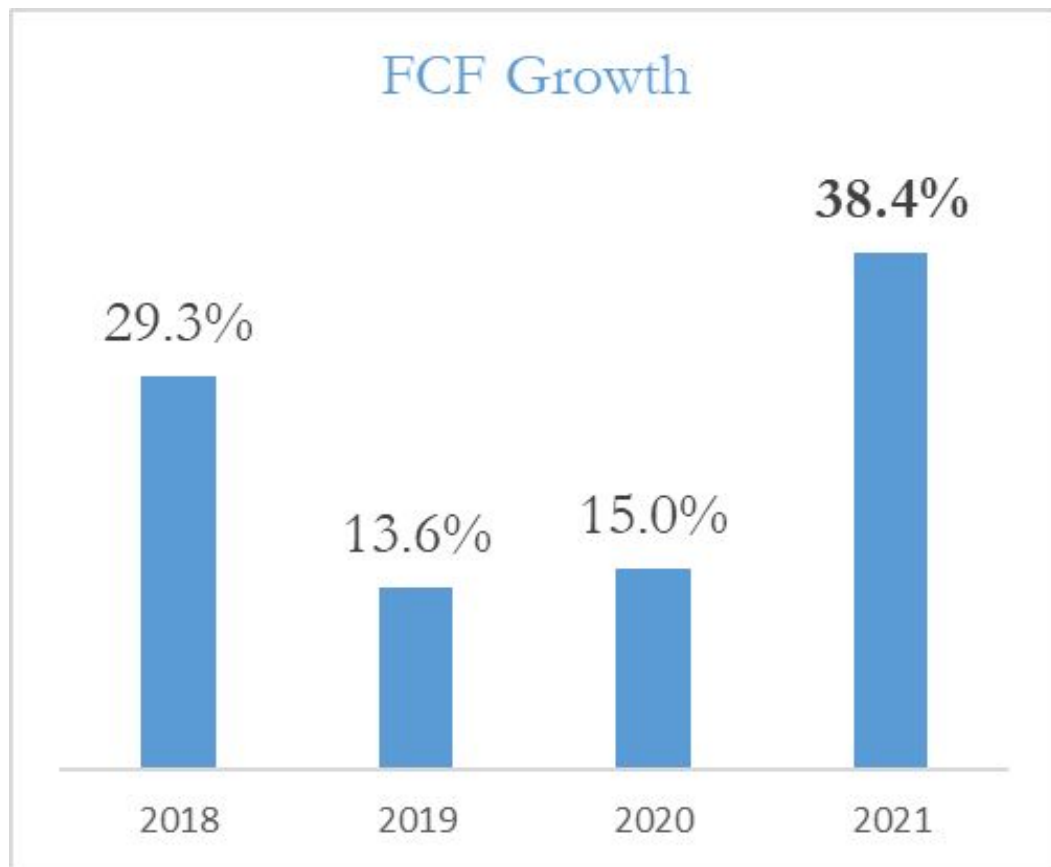


BMO KPI



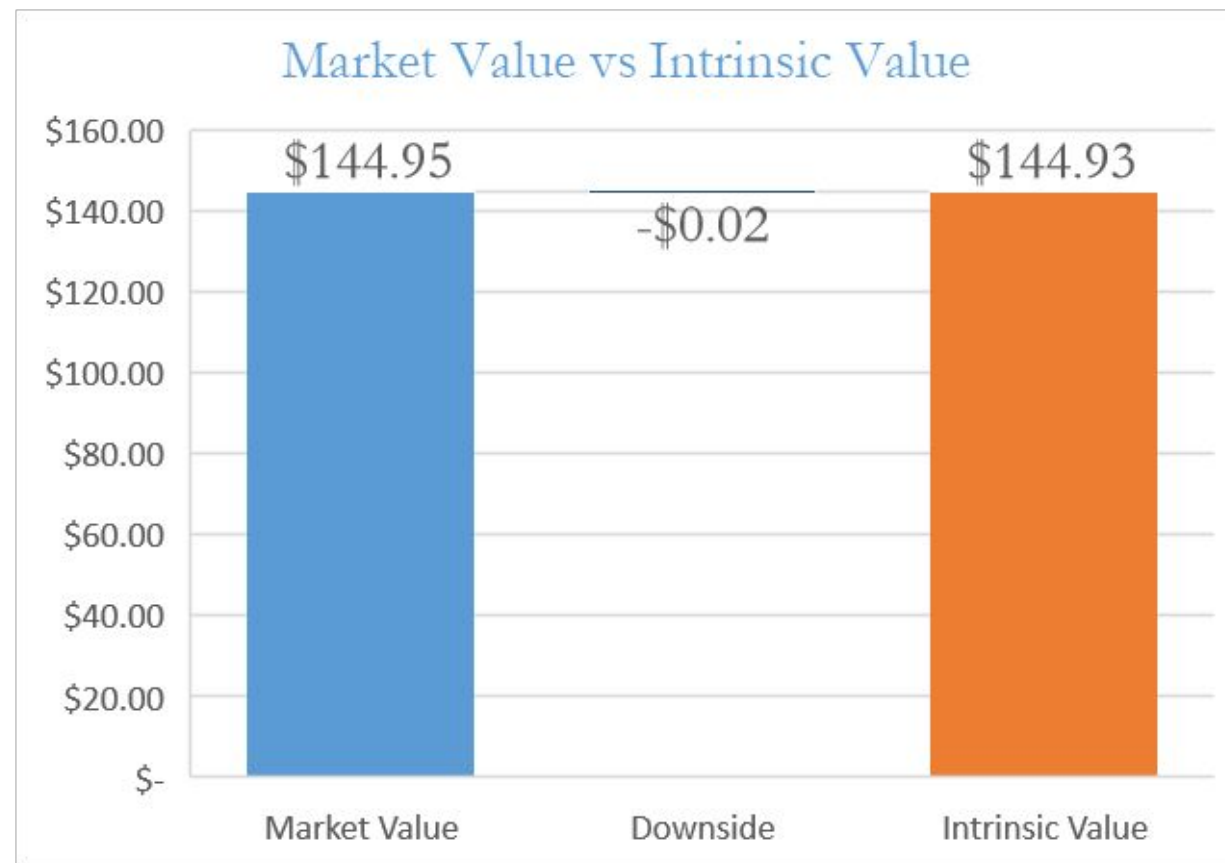
Free Cash Flow Growth (%)

- Big rebound post Covid



Market Value vs Intrinsic Value

- Currently at fair price



Valuation - Gordon Growth Model

Gordon Growth	
Share Price	\$ 144.95
Forward Div Yield	3.67%
Forward Div	\$ 5.32
Cost of equity	8.49%
Beta	1.16
Rf 1 year CDN Tbill	1.99%
Risk Premium	6%
4 Yr Div CAGR	4.62%
Target Price \$ 137.53	

Valuation - P/Book Comparables

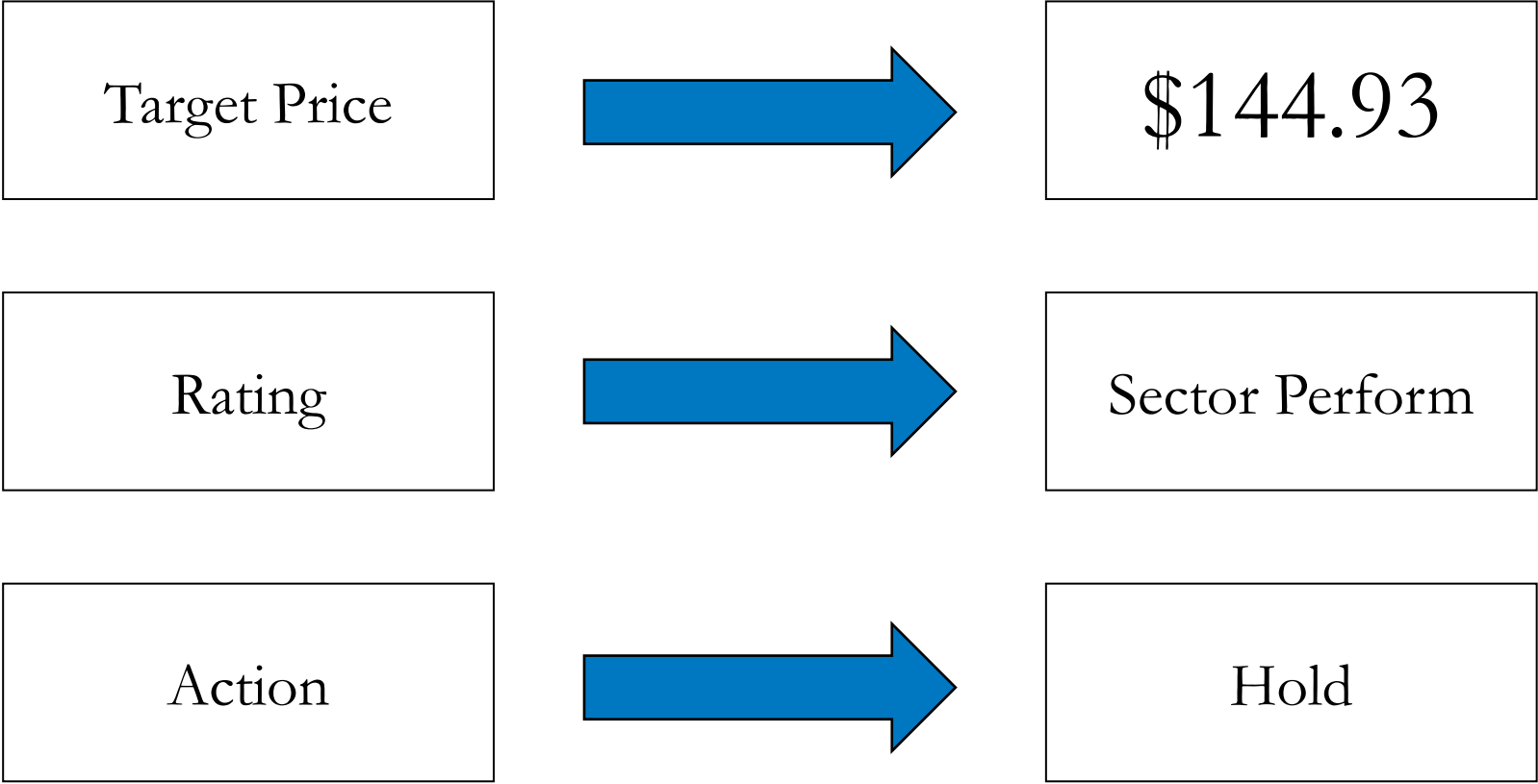
Market Data								
	Price	Shares	Market Cap	Net Debt	BV/Share	Forward Div Yield	Price/Sales	P/Book
Company Name	(\$/share)	(M)	(\$M)		(\$)		x	x
Bank of Montreal	\$144.95	648	\$93,965	\$158	\$87	3.58%	3.47	1.67
Bank of Nova Scotia	\$87.58	1,200	\$105,096	\$227	\$59	4.39%	3.61	1.48
CIBC	\$146.74	451	\$66,175	\$38	\$98	4.06%	3.34	1.49
NA Bank	\$94.39	338	\$31,933	\$98	\$53	3.54%	3.59	1.77
Royal Bank	\$136.66	1,420	\$194,057	\$319	\$67	3.42%	4.26	2.05
Toronto-Dominion	\$96.73	1,810	\$175,081	\$222	\$54	3.53%	4.27	1.79
Average	\$117.84	978	\$111,051	\$177	\$70	3.75%	3.76	1.71
Median	\$116.70	924	\$99,531	\$190	\$63	3.56%	3.60	1.72
TARGET PRICE							\$148.09	

Valuation & Recommendation

Methodologies

% of Blend		Sensitivity
GGM	Price/Book	Target Price
70.0%	30.0%	140.70
60.0%	40.0%	141.76
50.0%	50.0%	142.81
40.0%	60.0%	143.87
30.0%	70.0%	144.93

Recommendation



Questions?