Update Edition

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AN EARLY CHRISTMAS PRESENT

By Gordon Pape, Publisher and Editor

Readers who own shares in Bank of Montreal (TSX, NYSE: BMO) just received an early Christmas gift.

Last Friday, the bank announced a big 25% jump in its dividend and a plan to buy back up to 22.5 million of its shares through a normal course issuer bid.

Canada’s banks and insurance companies had been under orders not to raise dividends or buy back shares since March 2020. The Office of the Superintendent of Financial Institutions (OSFI), a federal agency, imposed the standstill at the beginning of the pandemic to encourage banks to build capital reserves and to have money available for lending.

Last month, the OSFI rescinded the ban, but urged financial institutions to exercise prudence in raising their dividends. Most of the big banks complied. Prior to the BMO announcement, the largest increase among the Big Five was by TD Bank, which hiked its dividend by 13%.

BMO decided to take a more aggressive approach after posting fourth quarter and fiscal year-end results that topped analysts’ estimates by a wide margin.

The bank announced net revenue of about $5.6 billion for the fourth quarter, up 8.1% from the same period in 2020. For the full fiscal year, net revenue was $25.8 billion, up from $23.5 billion in fiscal 2020.

Adjusted net income for the quarter was $2.2 billion ($3.33 a share, fully diluted). That compared to $1.6 billion ($2.41 a share) the year before. For the 2021 fiscal year, adjusted net income was $8.7 billion ($12.96 per share), up from $5.2 billion ($7.71 per share) last year.

BMO's Common Equity Tier 1 (CET1) Ratio was 13.7% as of Oct. 31, an increase from 13.4% at the end of the previous quarter. The improvement was driven by retained earnings growth, partially offset by higher source currency risk-weighted assets.

"We delivered another quarter of strong performance with positive operating leverage in each of our diversified businesses, contributing to

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Early gift - continued from page 1…

strong earnings for fiscal 2021. This year, we significantly advanced our strategy to build a digitally-enabled, future-ready bank...," said CEO Darryl White.

"Strong, consistent financial performance enables us to continue to invest in improving the well-being of our employees, customers and communities. We continue to be recognized as a global leader in sustainability as one of only five Canadian companies included in the Dow Jones Sustainability World Index – a confirmation of the progress we're making on our bold commitments for a thriving economy, a sustainable future, and an inclusive society. We will continue to act as a catalyst for positive change, including serving as our clients' lead partner in the transition to a net zero world."

The bank's new quarterly dividend will be $1.33 per share ($5.32 a year). That's up from $1.06 per quarter ($4.24 per share). At the Dec. 6 closing price of $137.89, the stock yields 3.9%.

The plan to repurchase 22.5 million of its shares is equivalent to 3.5% of its total common stock.

The share price is up $41.11 year-to-date (to Dec. 6). That's an increase of 42.5% from the Dec. 31, 2020 close of $96.78.

We first recommended BMO in September 2015 at C$71.33, US$53.87.

Action now: Buy.

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TOP PICK

Here is our Top Pick for this month. Prices are as of the close on Dec. 6 unless otherwise indicated.

The Western Union Company

Type: US common stock
Trading symbol: WU
Exchange: NYSE
Current price: $17.85 (figures in US dollars)
Entry level: Current price
Annual payout: $0.94
Yield: 5.3%
Risk Rating: Moderate risk
Recommended by: Gordon Pape
Website: www.westernunion.com

The business: Western Union. The name conjures up images from a distant past. Fingers tapping out messages in Morse code for transmission over telegraph lines across the continent. Saddened families receiving heartbreaking telegrams informing them of the death in battle of a beloved son or daughter. Smartly dressed boys delivering yellow envelopes containing urgent news.

All part of history, and certainly not relevant in the age of emails and the internet. That's true, but the company has reinvented itself. It is now one of the leaders in national and international financial transfers, moving money to over 200 countries and territories, in 130 currencies. The company allows customers to send transfers on-line, through its app, or in person from its many locations. It offers competitive foreign exchange rates and real-time tracking of your encrypted transfer.

The Western Union Telegraph Company was started in 1851. Ten years later it completed the first transcontinental telegraph line and began carrying messages from one end of North America to the other. Its money transfer service, the focal point of today's business, was introduced in 1871. In 1974, it started using satellites to transmit its messages and transfers even more quickly.

The security: We are recommending the common shares of Western Union. The company went public in 2006 and trades on the New York Stock Exchange under the symbol WU.

Why we like it: The 5.3% yield for starters. That's a high return for a quality stock these days. Plus, WU has an excellent dividend history – it has increased its payout every year but one since it went public.

Price is the second reason to look at this stock now. It's trading at the lower end of its normal range – a year ago at this time it was close to $27.

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Top pick – continued from page 2…

Financial highlights: The Denver-based company released third-quarter financial results on Nov. 2 and updated its full year guidance for 2021.

The company's third quarter revenue was $1.3 billion, up 2% on a reported and constant currency basis. Third quarter growth was led by digital money transfers, which continued to deliver double-digit expansion, and the Business Solutions segment, partially offset by reduced retail money transfers due to the slow pace of economic recovery.

For the first nine months of the fiscal year, the company reported revenue of $3.786 billion, a 6% improvement over $3.563 billion in the same period of 2020.

WU recorded third quarter net income of $232.7 million ($0.57 per share), up from $228.6 million ($0.55 a share) in the same period of 2020.

Net income for the first nine months was $637 million ($1.55 per share, fully diluted). On a per share basis, that was up 13% from $567.2 million ($1.37 per share) last year.

"While economic conditions and industry trends have not fully recovered, third quarter results highlight the resilience of our millions of customers around the world, who continue to provide much needed support to loved ones back home," said CEO Hikmet Ersek. "Our digital business continues to generate strong revenue growth with $266 million generated in the quarter, maintaining the record-high level that we achieved in the second quarter and putting us well on pace to exceed $1 billion in revenue this year."

Outlook: The current financial picture should be little changed for the rest of this year. The company forecast a modest increase in full-year adjusted earnings per share to $2.05-$2.10, from $2.00-$2.10.

Risks: This is a well-established business, with millions of users world-wide. The main concern of investors is market risk, although that is reduced by the fact the stock is at a relatively low point in its normal trading cycle.

Distribution policy: Dividends are paid quarterly, in March, June, September, and December.

Tax implications: A 15% withholding tax will be applied to dividends unless the shares are held in a retirement plan, such as an RRSP or RRIF. TFSAs are not recognized as retirement plans.

Who it's for: This stock is suitable for investors seeking dependable US dollar cash flow.

How to buy: The stock trades actively on the NYSE, with an average daily volume of almost 5.7 million shares. Any broker can acquire shares for you.

Summing up: A staple company with an international business, a strong yield, and a history of consistent dividend hikes. What more could you want?

Action now: Buy.

YOUR QUESTIONS

Firm Capital

Q - Can you please explain why Firm Capital has been trending down from over $15 a month ago to about $14 today. Should I ditch it now after I bought when you mentioned it a month ago? – B. Yuen

A - Actually, I first recommended Firm Capital (TSX: FC) in January 2004 at $11.30. Over the years it has almost always traded in a range from $10-15. The reason to own it is the steady income it provides, not for capital gains potential.

The price is down from the $15 range because of a combination of factors, the most important of which is rising interest rates. None have anything to do with the fundamental strength of the company.

I have owned the stock ever since I recommended it and still do. If cash flow is your primary objective, you should just ignore the day-to-day price fluctuations and keep collecting the monthly dividend.

On the other hand, if you're investing for capital gains you never should have bought this stock in the first place, as I have always tried to make clear. If that's the case, by all means "ditch it". But if you are looking for steady, predictable income, buy more when the price drops. – G.P.

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Brookfield LPs

Q - I have been holding Brookfield Infrastructure and Brookfield Renewable Partners for a while, collecting the dividend along the way. I had imagined these as long term holds but lately I wonder if it's time to go elsewhere. Any advice? – Charles D.

A - This are Brookfield limited partnerships based in Bermuda, but their businesses are very different so let's look at each separately.

Brookfield Infrastructure Partners (TSX: BIP.UN, NYSE: BIP) invests in a wide range of core industries, mainly in the Americas, Europe, and Australia. These include railroads, ports, cell towers, toll roads, etc.

On Nov. 3, the partnership released third quarter results. Brookfield reported net income of $413 million ($0.72 per unit, figures in US dollars) for the three-month period to Sept. 30. That compared to a loss of $5 million (-$0.12 per unit) in the prior year.
Funds from operations (FFO) was $422 million for the quarter, reflecting a 16% increase compared with the same period last year. Results were supported by strong growth from the base business and the initial contribution from Inter Pipeline Ltd., which was acquired earlier this year. The results exclude the impact of the sale of various assets, which raised almost $2 billion of net proceeds for Brookfield Infrastructure this year.

Although there have been pullbacks along the way, the overall trend for BIP.UN this year has been up. The units closed on Dec. 6 at $72.43, a little off their high for the year. The yield is 3.6%.
A rising market trend and a decent yield suggest this is not a stock to sell at this time. We maintain our Buy rating.

Brookfield Renewable Partners (TSX: BEP.UN, NYSE: BEP) is in the green energy business. Its primary focus is on hydro power, but it also owns wind farms and solar projects.

Green energy stocks performed well in 2020, partly in anticipation of President Joe Biden's commitment to combatting climate change and the anticipation that Congress would approve legislation providing financial support for corporations and consumers tied to environmental initiatives. In fact, that has happened, and a new $2.3 trillion bill is currently awaiting Senate approval.

However, the investors pushed the green energy stocks too far too fast, and almost all have suffered losses this year. BEP.UN opened the year at about $62 per unit but was trading at $43.94 at the close on Dec. 6. The yield is 3.5%.

These numbers make BEP more problematic. The trend line continues to be down. The yield is decent but there are many other more stable stocks that offer a better return. I still like BEP as a long-term Hold, but if you're uncomfortable with it, sell and move on. I originally recommended it at $11.08 so there's still a significant profit for those who bought at that time. – G.P.

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