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BMO boosts dividend as it streamlines operations

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Bank posts second-quarter earnings of $1-billion

Bank of Montreal is making efforts to streamline its operations as customers migrate toward online transactions and away from traditional branch banking, leaving the lender with a hefty restructuring charge in its second quarter results that weighed on its earnings.

"Our industry is evolving quite rapidly," said Bill Downe, BMO's chief executive, in an interview following the release of the bank's results.

"You read about disruption taking place in the industry, and I think one of the benefits of it is that the quality of every customer interaction is improving as routine transactions are being taken over by intelligent systems."

The disruption has taken a toll on BMO's ranks, though. The bank trimmed its head count during the quarter, including jobs in its capital markets arm and managerial positions, in particular.

These job losses contributed to a restructuring charge of $106-million (along with a legal matter that was related to a previous acquisition), or enough to reduce BMO's quarterly earnings by 7 per cent from last year.

The bank reported earnings of $1-billion, or $1.49 a share. It boosted its quarterly dividend to 82 cents a share, up 2 cents, continuing a recent pattern of raising the payout every six months.

After accounting for the restructuring charge, BMO's adjusted earnings rose 5 per cent, to $1.71 per share, beating analysts' estimates.

"Overall, we view the quarter positively," said Darko Mihelic, an analyst at RBC Dominion Securities, in a note. "The only negative is BMO's inability to produce positive operating leverage in Canada, punctuated by a restructuring charge."

The share price rose 25 cents, to $77.90 in Toronto.

The collapse in the price of crude oil hung over the Canadian banks earlier this year, out of concern that the depressed energy sector would drag down the Canadian economy. However, the impact remains hard to see in BMO's estimate of bad loans. It reported that provisions for credit losses were $161-million in the second quarter, virtually unchanged from the previous quarter and last year.

Mr. Downe argued that lower energy prices provide a benefit to personal spending and areas such as manufacturing and transportation and other industries.

"Is a lower oil price bad for Canada in aggregate but good for the majority of Canadians? Probably that is the case," he said.

The bank's wealth management group stood out in its results, with earnings up 24 per cent over last year. Assets under management surged 36 per cent, driven partly by BMO's acquisition of F&C Asset Management, a U.K.-based investment manager.

Results from U.S. personal and commercial banking were also upbeat. Earnings rose 31 per cent over last year, helped by the stronger U.S. dollar. However, BMO's Canadian retail banking operations were sluggish, with earnings up just 1 per cent from last year.

Mr. Downe outlined a number of areas in which he expects the Canadian results to pick up in the second half of the year, which began in April, including small-business loans, car loans, personal credit and mortgages.

"The mortgage season is under way. ... I think we'll see performance consistent with last year, which was quite good," he said. "So I would say, across the board, I am positively disposed toward a return to more normal growth levels." However, he wouldn't rule out more job cuts ahead as the bank continues to grapple with industry-wide changes.

"I do think that information technology is going to allow us to continue, over time, the flattening of the organization," he said.