



Is National the Cheapest Canadian Bank?

Description

Over the very long-term it's been nearly impossible to lose money investing in the Canadian banks by simply implementing a buy and forget strategy. The companies dominate the nation's financial landscape and have been huge winners for a generation of Canadian investors.

Short-term windows however do open up where one (or more) of the banks falls out of favour. This typically represents a great opportunity as not only has buy and forget worked with this group, so too has adding to an existing position whenever a pull-back has occurred – a strategy known as “buying the dips”.

Given the state of the nation's housing market, we're in an environment where a material pull-back in these names could occur and therefore carefully monitoring the group for an attractive opportunity could result in a very nice financial reward.

A valuation check-up

The banks have sold off recently – surely the housing related headlines have had an impact, along with some rather lacklustre economic data. The only name out of the group however that lost shareholders money over the past year on a total return basis was National. This prompted the question – do National's fundamentals justify the underperformance?

Tabled below are several valuation metrics and profitability related stats for the Big 5 + National:

Company Name	P/E LTM	Fwd P/E	P/B	Div Yield	ROE LTM	Exp E
Royal Bank (TSX:RY)	11.7	10.8	2.1	4.2%	19.4%	
BMO (TSX:BMO)	10.3	10.1	1.5	4.8%	14.0%	

TD (TSX:TD)	11.4	10.1	1.7	4.0%	14.2%	
Scotia (TSX:BNS)	10.8	10.8	1.8	4.2%	17.3%	
CIBC (TSX:CM)	10.1	9.2	2.1	4.8%	19.7%	
Average	10.9	10.2	1.8	4.4%	16.9%	
National Bank (TSX:NA)	7.9	9.0	1.8	4.5%	20.3%	

Source: Capital IQ

Generally speaking the numbers in the table are very homogenous. Therefore, that window of opportunity referred to above probably isn't open very wide at the moment.

Although a few of National's numbers stand out, they appear justified. National's trailing and forward P/E ratios are distinctively below the group, and even though profitability as measured by ROE is strong, expectations for earnings growth are well below the rest of the group. Low (or negative) growth is typically rewarded with a below average earnings multiple.

Foolish Takeaway

Buy and forget remains a viable strategy for this group but if you're interested in a more dynamic way to play, keep an eye out for laggards. Though National is expected to feel the pain of a slowing Canadian economy more so than its peers, as the expectations for earnings growth indicate, the chance for an overshoot on the downside exists. It doesn't look like we're there yet, but if you ruminate on this scenario ahead of time, you'll be ready to pounce if and when opportunity knocks.

The S&P/TSX Composite Index is loaded with financial and resource stocks. Because of this, investors that rely on Canadian Index funds or ETFs severely lack diversification in their portfolio, opening them to undue risks. We have created a special report that outlines an easy to implement strategy and 5 Canadian stocks that reduce the risks involved with passively investing in the Canadian market. [Click here now](#) to receive "**Buy These 5 Companies Instead of Following a Flawed Piece of Advice**" – FREE!

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Fool contributor Iain Butler does not own shares in any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.

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TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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