Will National Bank of Canada Shares Continue to Surge?

Description

This year has been a good one for the big Canadian banks – all of them have seen their share prices rise this year, with four of them rising by at least 14%. But their returns have been crushed by **National Bank of Canada** (TSX: NA), which is up by nearly 25% so far in 2014. Partly as a result, Chief Executive Officer Louis Vachon has been named CEO of the year by *Canadian Business*.

So what's been the key to National's success? And will the shares continue to rise?

A combination of luck and skill

Without question, National has benefited from good fortune this year. Chief among them has been the resurgence of the Quebec economy. More specifically, government balances are in better shape, tax cuts may be on the horizon, and investment sentiment is improving. More recently, falling oil prices and a falling Canadian dollar have provided welcome relief for consumers and exporters, respectively. This has been critical for National – last year, Quebec accounted for 63% of revenue.

That being said, Mr. Vachon and the other managers at National deserve much credit. For example, he has placed a big emphasis on cross-selling different products to existing customers, which not only boosts revenue, but also increases customer loyalty. As a result, National has been growing very nicely – in the most recent quarter, personal and commercial banking revenues grew by an impressive 6%.

Still trading cheaply

Despite the share price surge, National still trades fairly cheaply, currently at only 12.5 times earnings. This is well below rivals like **Royal Bank of Canada** and **Toronto-Dominion Bank**, which trade for 13.7 and 14.0 times earnings respectively.

So with strong growth prospects, and a reasonable share price, there is plenty more upside for shares of National.

Not without risk

That being said, National trades at a discount for a reason.

For one, investors are concerned about National's revenue concentration, especially in a region as up and down as Quebec. Most recently, this has benefited the company. But if oil prices or the Canadian dollar turn the other way, the story will be very different.

Second, National makes an outsized portion of its profits from Financial Markets (more commonly known as Capital Markets). This includes business lines like investment banking and securities trading, which are known to be very opaque and unpredictable. To put this in proper context, Financial Markets accounted for 35% of total income last quarter. This compares to 25% for RBC, which is known for having a big Capital Markets business, and 10% at TD.

So National Bank may still be worth owning — but only in a very well-diversified portfolio.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

Category

1. Bank Stocks
2. Investing

Date
2025/07/23
Date Created
2014/11/19
Author
bensinclair