



How Does National Bank of Canada's Performance Compare With the Big 5 Banks?

Description

The banking industry is a big part of the Canadian economy. Adding the banks to your portfolio of dividend stocks is a good choice because they generally pay a more handsome yield than an index fund like **iShares S&P/TSX 60 Index Fund**. One of the bank players we hear less about when compared with the big five banks is **National Bank of Canada** ([TSX:NA](#)).

About National Bank of Canada

National Bank of Canada is the sixth-largest Canadian bank and the leading bank in Quebec. With over 20,000 employees, the bank offers a range of services in banking and investment solutions, securities brokerage, and insurance and wealth management.

Its first quarter, ending in January 2015, shows its revenue source is mainly diversified across three core business segments: personal and commercial (about 47% of revenue), financial markets (26%), and wealth management (24%). Its total assets in its core business segments are about \$214 billion, while its assets under management are about \$359 billion.

About its core business segments

First, personal banking provides a complete range of financial products and services for everyday transactions, as well as mortgage loans, consumer loans, credits cards, and savings and investment options. National Bank of Canada also offers a list of insurance solutions to these individual clients.

Commercial banking serves the needs of small and medium-sized businesses and large companies across Canada. Other than credit, deposit, and investment solutions, the bank also offers international trade services, such as trade finance, foreign exchange, payroll, cash management, and insurance.

Second, wealth management serves the investment and savings needs of a broad client base. The bank has 915 investment advisors across 115 service outlets to provide investment solutions.

Finally, financial markets provides corporate, public sector, and institutional clients with banking and

investment banking services. It also provides its clients with access to the Canadian capital markets via its fixed income, equities, and derivatives business lines.

Business performance

Earnings per share (EPS) is an essential indicator of the profitability of a business. Since 1996, National Bank of Canada's EPS has been in a long-term upward trend. Its EPS has increased from \$1.08 in 1996 to \$4.48 by the end of 2014. This was an annual growth of 8.2% over the 18-year period. More recently, its five-year EPS growth was 7.5% per year. This shows the bank's earnings are still growing strong.

Here's National Bank of Canada's five-year total return (with dividends reinvested) compared with the other big banks: **Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, and Bank of Montreal.**

NBC	RBC	TD	BNS	CIBC	BMO	Average
15%	11.5%	14.9%	10.1%	13%	13%	12.9%

Note that the above returns are dependent on the prices the shares were reinvested at, and can only be used as one of the many perspectives of evaluating the performance of the banks.

What to expect from National Bank of Canada

Since 1996, the bank has never cut its dividend and only froze it in 2009 and 2010. In other years, it has typically raised its dividend 7-12% per year.

The bank's medium-term objective is to achieve EPS of 5-10% with a dividend payout ratio of 40-50%. So far, its first-quarter results have shown 5% growth in EPS and its payout ratio sits at 42%.

In conclusion, I believe in the near term, National Bank of Canada offers an attractive yield of 4.2% with room to grow 5-7% due to moderate earnings growth and payout ratio expansion. Further, the growing dividend will lead to steady price appreciation of the stock in the long term.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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