



Is National Bank of Canada the Top Financial Stock to Buy Today?

Description

National Bank of Canada ([TSX:NA](#)), the seventh-largest bank in Canada in terms of total assets, has watched its stock widely underperform in the overall market in 2015, falling more than 2.5% as the TSX Composite Index has risen over 5.5%, but it has the potential to be one of the top performing stocks over the next several years. Let's take a look at three main reasons why this could happen and why you should be a long-term buyer today.

1. Consistent earnings growth to support a rally

On February 25 National Bank released better-than-expected first-quarter earnings results, but its stock has responded by falling about 0.5% in the weeks since. Here's a summary of 10 of the most notable statistics from the report compared to the year-ago period:

1. Adjusted net income increased 6.8% to \$410 million
2. Adjusted earnings per share increased 4.6% to \$1.14
3. Revenue increased 6.5% to \$1.46 billion
4. Non-interest income increased 4% to \$735 million
5. Net interest income increased 9.2% to \$724 million
6. Total assets increased 4.4% to \$214.47 billion
7. Total deposits decreased 0.5% to \$119.24 billion
8. Total loans and acceptances increased 1.1% to \$107.32 billion
9. Total assets under administration increased 12.4% to \$312.7 billion
10. Book value per share increased 11.2% to \$26.33

2. The stock trades at inexpensive current and forward valuations

At today's levels National Bank's stock trades at just 10.5 times fiscal 2015's estimated earnings per share of \$4.59 and only 9.9 times fiscal 2016's estimated earnings per share of \$4.86, both of which are inexpensive compared to its long-term growth rate.

Furthermore, the company's stock trades at a mere 1.83 times its book value per share of \$26.33, which is very inexpensive compared to its market-to-book value of 2.04 at the conclusion of fiscal 2014.

I think National Bank's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$55 by the conclusion of fiscal 2015 and upwards of \$58 by the conclusion of fiscal 2016, representing upside of more than 14% and 20%, respectively, from current levels.

3. A generous dividend that is on the rise

National Bank pays a quarterly dividend of \$0.50 per share, or \$2.00 per share annually, giving its stock a very high 4.15% yield at current levels. The company has also increased its dividend nine times since 2010, showing that it is strongly dedicated to maximizing the amount of capital it returns to shareholders, and I think this makes it one of the best dividend-growth plays in the financial sector today.

Is now the time to buy shares of National Bank?

National Bank of Canada represents one of the best investment opportunities in the banking industry today, because it has the support of consistent earnings growth, because its stock trades at inexpensive valuations, and because it has a 4.15% dividend yield. Foolish investors should take a closer look and strongly consider initiating long-term positions.

CATEGORY

1. Bank Stocks
2. Investing

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1. Editor's Choice

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1. TSX:NA (National Bank of Canada)

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Date

2025/09/30

Date Created

2015/04/16

Author

jsolitro

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