



Should You Buy, Sell, or Hold National Bank of Canada Today?

Description

National Bank of Canada ([TSX:NA](#)), one of Canada's largest financial institutions, announced better-than-expected second-quarter earnings results before the market opened on May 27, but its stock responded by making a miniscule move to the upside in the trading session that followed. Let's take a closer look at the results to determine this lack of movement represents a long-term buying opportunity, or if there is an underlying factor holding the stock back.

The better-than-expected quarterly results

Here's a summary of National Bank's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.15	\$1.12	\$1.05
Adjusted Revenue	\$1.50 billion	\$1.42 billion	\$1.34 billion

Source: *Financial Times*

National Bank's adjusted earnings per share increased 9.5% and its adjusted revenue increased 11.4% compared with the second quarter of fiscal 2014. The company's very strong earnings-per-share growth can be attributed to its adjusted net income increasing 9.6% to \$411 million, driven by 37.5% growth to \$176 million in its Financial Markets segment. Its double-digit percentage increase in revenue can be attributed to its non-interest income increasing 15.9% to \$730 million, led by 34.9% growth to \$143 million in its Financial Markets segment, primarily due to "higher trading activity revenues."

Here's a breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total assets increased 6.6% to \$207.12 billion
2. Total deposits increased 10.2% to \$122.05 billion

3. Total loans and acceptances increased 7.2% to \$108.82 billion
4. Total assets of under administration increased 8.3% to \$318.02 billion
5. Total assets under management increased 21.6% to \$48.63 billion
6. Net interest income increased 7.4% to \$767 million
7. Adjusted efficiency ratio remained unchanged at 58.7%
8. Book value per share increased 10.7% to \$27.01

National Bank also announced a 4% increase to its quarterly dividend to \$0.52 per share, and the next payment will come on August 1 to shareholders of record at the close on business on June 22.

What should you do with National Bank's stock today?

The second quarter was highly successful for National Bank of Canada, so I think its stock should have risen much more than it did. With this being said, I think the stock represents a very attractive long-term investment opportunity today because it trades at inexpensive valuations and has a very high dividend yield.

First, National Bank's stock trades at just 10.8 times fiscal 2015's estimated earnings per share of \$4.57 and only 10.2 times fiscal 2016's estimated earnings per share of \$4.86, both of which are inexpensive compared with the industry average price-to-earnings multiple of 14.2. Also, it trades at a mere 1.83 times its book value per share of \$27.01, which is very inexpensive compared with its market-to-book value of 2.04 at the conclusion of fiscal 2014.

Second, National Bank now pays an annual dividend of \$2.08 per share, which gives its stock a 4.2% yield at today's levels. It is also very important to note that the company has increased its dividend 10 times since 2010, making it one of the top dividend-growth plays in the market today.

With all of the information provided above in mind, I think National Bank of Canada represents one of the best long-term investment opportunities in the financial sector today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
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1. Editor's Choice

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1. TSX:NA (National Bank of Canada)

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