



3 Reasons Why National Bank of Canada Could Outperform the Market

Description

National Bank of Canada ([TSX:NA](#)), one of Canada's 10 largest banks, has watched its stock underperform the overall market in 2015, falling about 0.5% as the TSX Composite Index has returned over 2%, but it has the potential to widely outperform the market from this point forward. Let's take a closer look at three of the primary reasons why this could happen and why you should be a long-term buyer today.

1. Its very strong second-quarter earnings could support a near-term rally

National Bank released better-than-expected second-quarter earnings results on the morning of May 27, but its stock has responded by making a slight move to the downside in the trading sessions since. Here's a summary of 10 of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 9.6% to \$411 million
2. Adjusted earnings per share increased 9.5% to \$1.15, surpassing analysts' expectations of \$1.12
3. Adjusted revenue increased 11.4% to \$1.50 billion, surpassing analysts' expectations of \$1.42 billion
4. Net interest income increased 7.4% to \$767 million
5. Non-interest income increased 15.9% to \$730 million
6. Total assets increased 6.6% to \$207.12 billion
7. Total deposits increased 10.2% to \$122.05 billion
8. Total loans and acceptances increased 7.2% to \$108.82 billion
9. Total assets under management increased 21.6% to \$48.63 billion
10. Book value per share increased 10.7% to \$27.01

2. Its stock trades at inexpensive forward valuations

At current levels National Bank's stock trades at just 10.5 times fiscal 2015's estimated earnings per share of \$4.67 and only 10 times fiscal 2016's estimated earnings per share of \$4.92, both of which are inexpensive compared with the industry average price-to-earnings multiple of 13.4.

I think National Bank's stock could consistently trade at a fair multiple of at least 12, which would place its shares upwards of \$56 by the conclusion of fiscal 2015 and upwards of \$59 by the conclusion of fiscal 2016, representing upside of more than 13% and 19%, respectively, from today's levels.

3. It has a high dividend yield

National Bank pays a quarterly dividend of \$0.52 per share, or \$2.08 per share annually, giving its stock a 4.2% yield at current levels. The company has also increased its dividend 10 times since 2010, showing that it is strongly dedicated to maximizing shareholder value and making it one of the top dividend-growth plays in the market today.

Does National Bank belong in your portfolio?

I think National Bank of Canada could outperform the overall market in both the short and long term. Its very strong second-quarter earnings results could support a near-term rally, its stock trades at inexpensive forward valuations, and it has a 4.2% dividend yield with an extensive track record of increasing its payout. Foolish investors should take a closer look and strongly consider establishing positions today.

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1. TSX:NA (National Bank of Canada)

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