



## Can You Trust First National Financial Corp.'s 7.4% Dividend?

### Description

Since going public, **First National Financial Corp.** ([TSX:FN](#)) has been one of the highest-yielding dividend-paying companies in Canada. With a large mortgage portfolio that generates continual cash flows, and a business model designed to efficiently deploy investor capital, the company has been able to consistently pay out large dividend streams to shareholders.

With the stock price down over 10% in the past 12 months however, its stock is now yielding almost 7.4%. Can investors count on this high payout moving forward, or is it destined to be trimmed as many other financial firms have been forced to do in the past?

### A long history of dividends

Over the past five years, First National Financial hasn't missed a dividend payment once. The company has also managed to raise its already high payments by 20% since 2011. This has helped keep the average yield above 7% over the past few years.

Management anticipates continuing to distribute a significant portion of earnings as dividends.

### Fundamentals look strong

First National Financial derives a significant amount of its revenue from mortgage origination activities.

This year management expects to generate healthy cash flow from its \$23 billion portfolio of securitized mortgages as well as its massive \$64 billion mortgage servicing portfolio. Meanwhile, new mortgage demand in Canada (a major driver of growth) continues to be strong.

Total new mortgage volumes increased last quarter by 6%. This was led by a rise in single-family volumes (up 7%) as well as commercial segment volumes (up 2%). Management noted that demand for housing and commercial real estate continued into 2015, with the company increasing its share in the mortgage broker channel from 2014 levels.

The company also expects its new mortgage underwriting and fulfillment processing services business

to turn its first profit this year. In early 2014 First National Financial entered into an agreement with one of Canada's largest banks to provide underwriting and fulfillment processing services for that bank's mortgage portfolio. First National Financial is regarded as one of the most reputable players in this space and this new agreement should boost profitability as these are typically high-margin services.

### **Diversified revenue and funding sources mitigate financial risks**

Financial companies such as First National Financial depend heavily on the capital markets to fund new loans. They also depend on the strength and stability of a variety of revenue sources such as mortgage services, interest payments, and securitized sales.

While no lender can fully mitigate any macro-economic impacts, First National Financial has positioned itself to reduce risk in its portfolio. The company has one of the most diverse sets of funding sources in the industry and no one revenue source constitutes a majority of sales.

### **A great substitute for lower-yielding Canadian banks**

After recently hitting a 52-week low, shares in First National Financial are cheaper than they've been in some time. With strong underlying financials supporting its 7.4% dividend, the company's stock could be an attractive substitute to lower-yielding Canadian banks that trade at lofty valuations.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:FN (First National Financial Corporation)

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