



## National Bank of Canada Blindsides Investors: Is the Dividend at Risk?

### Description

**National Bank of Canada** ([TSX:NA](#)) just blindsided investors with some bad news, and Canada's baby of the Big Six suddenly looks like it could be in big trouble.

### Layoffs

CEO Louis Vachon is cutting several hundred jobs in a restructuring effort designed to stabilize the business. The company says a slowdown in the economy and fierce competition are taking a toll on the Montreal-based bank.

Most of the job losses will be in Quebec and the company plans to take a \$64 million restructuring charge in the fourth quarter.

### Investment risks

An economic slowdown and tight competition are bad enough, but the real zinger for investors is the revelation that National Bank is facing a substantial loss on its investment in **Maple Financial Investment Group Inc.**

Frankfurt authorities recently raided Maple Financial's German unit as part of a probe into some questionable transactions.

National Bank owns 25% of Maple Financial. If the process results in a complete write-off, the company is looking at a charge of \$165 million. That's a hefty hit for any of the banks, but National Bank only has a market capitalization of \$13 billion, so the charge would wipe about 13 basis points of the company's CET1 ratio.

To put things into perspective, **Royal Bank of Canada** has a market cap of \$103 billion, so the effect would be the same as if Royal said it had to write off \$1.3 billion.

That's huge.

## Share sale

National Bank has to keep its CET1 ratio above 9.5%. As of July 31, the CET1 ratio was right on the minimum, so a write-down on the Maple Financial investment would put National Bank below its required threshold.

In order to avoid that situation, the company is selling \$300 million in new shares to beef up its capitalization.

## Dividend safety

National Bank pays a quarterly dividend of \$0.52 per share that now yields 5%. The payout ratio in the last quarter was 42%, so the company should be able to weather the storm, but investors have no idea how bad the situation really is.

At the very least, increases in the payout will be on hold for the foreseeable future. This is going to upset investors because the bank has raised the dividend nine times in the past five years.

## Should you buy the bad news?

National Bank's shares dropped more than 5% on October 2. The stock now trades at 9.6 times trailing earnings, which is less than its peers, but the company still looks too risky.

Until the all the bad news is clearly out, I would avoid National Bank of Canada.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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