



National Bank of Canada: Is it Safe to Buy for the 5% Yield?

Description

National Bank of Canada ([TSX:NA](#)) recently announced some bad news, and the stock is now trading at two-year lows.

Let's take a look at the situation to see if this is a good opportunity to buy the shares.

Big rally

For a while, National Bank of Canada was the darling of the Canadian bank stocks, and investors figured the company could do no wrong. In fact, the shares rose more than 65% from late November 2011 to mid-November 2014.

Since then, the stock has been on a downward trend, and the recent restructuring announcement now has investors wondering if more pain is on the way.

Big trouble

On October 1, National Bank of Canada hit the market with a restructuring charge of \$85 million, or \$64 million after tax, that will be booked in the fourth quarter.

The company plans to cut several hundred jobs and has raised \$300 million through an equity issue in an effort to shore up its capital position.

The company's CET1 ratio at the end of July was 9.5%, right on the minimum requirement. After the capital raise and the charges, management expects to finish October with a CET1 ratio of 9.8%.

Low economic growth and heavy competition are cited as the main reasons for the restructuring efforts, but the company is also facing a significant loss on an investment in Europe.

National Bank of Canada owns about 25% of **Maple Financial Group**, which has a German subsidiary that is being investigated for alleged tax irregularities. If National Bank of Canada has to write down its full \$165 million investment in Maple Financial Group, the hit would be about 13 basis points on the

CET1 ratio.

Big opportunity?

National Bank of Canada now trades at an attractive 8.6 times forward earnings and 1.5 times book value. The dividend yield is above 5%.

This makes it the cheapest among the Big Five banks and the one with the best distribution yield.

The company has increased the dividend nine times in the past five years. Investors shouldn't expect that trend to continue given the current difficulties, but the distribution looks safe. The payout ratio is only about 42% and Maple Financial Group accounts for less than 1% of net income.

Should you buy?

Contrarian investors might see a long-term opportunity here, but I would wait for the next earnings results to come out before stepping into the stock. At this point, the yield difference just isn't enticing enough to take on the extra risk, and all the Canadian banks are still facing some strong headwinds in the domestic market.

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2. Dividend Stocks
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1. TSX:NA (National Bank of Canada)

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