



## Should You Get the Highest Bank Yield From National Bank of Canada?

### Description

Canadian banks are known for being the most secured banks in the world. Even the smaller regional banks such as **Laurentian Bank of Canada** ([TSX:LB](#)) and **Canadian Western Bank** ([TSX:CWB](#)) were able to maintain their dividends during the financial crisis of 2008-09. In fact, they increased their dividends in that period. But they only offer yields of 4.3% and 3.6%, respectively.

If these smaller regional banks with market caps of \$2 billion or less are pretty solid, it goes without saying that the Big Six banks, having a larger scale, should be more solid and financially sound.

For example, Laurentian Bank of Canada only has an S&P credit rating of BBB, while **National Bank of Canada** ([TSX:NA](#)) has an S&P credit rating of A. Today, National Bank of Canada has the highest yield among the Big Six banks. At about \$43.50, it yields 4.8%. It offers an income that's 11.6% higher than Laurentian Bank of Canada.

### Valuation

The shares of National Bank of Canada have fallen roughly 21% from its 52-week high of \$55 to \$43.50 and is 10.6% up from its 52-week low of \$39.3. So, it doesn't look like you're paying too much or too little for the business today.

If we base the valuation of the business on past trading multiples, we'll get a better idea on the true valuation of the business. In the past 10 years it has normally traded at a multiple of 10.8, while it trades around 9.1 today. This indicates the shares are selling at a discount of 15%. It would be fairly valued around \$51.

### Uncertainty and dilution

National Bank of Canada is selling at a discount, and it offers an above-average yield of 4.8%. However, there's some uncertainty about the business right now. For example, we still don't know the losses that the investment in Maple Financial Group Inc. has incurred on the bank yet.

Further, this month National Bank of Canada just closed its common share offering of 7,160,000

common shares, which diluted shareholders by roughly 2%. Those shares were priced at \$41.90 per share, so it'd seem that investors today are paying a premium of 3.8%.

### **Solid dividend performance**

Nonetheless, National Bank of Canada navigated the financial crisis quite well. It managed to maintain its annual payout of \$1.24 per share in 2008 and 2009 and started increasing it again in 2010.

Since 2010, it has increased the dividend at a compound annual growth rate of 10.9%, which is roughly three times the rate of inflation. With a payout ratio of about 47%, National Bank of Canada's yield looks safe.

### **In conclusion**

National Bank of Canada's dividend of 4.8% remains solid, and the shares are priced at a slight discount today. So, investors should consider its above-average income today.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:CWB (Canadian Western Bank)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:NA (National Bank of Canada)

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