



Does National Bank of Canada Deserve to Be in Your Dividend Portfolio?

Description

National Bank of Canada ([TSX:NA](#)) is finding some support after a six-month slide that knocked nearly 20% off the share price.

Investors who remained faithful during the pullback are now looking at the juicy dividend and wondering if they should buy more of the stock or take advantage of the latest rebound and head for the hills.

Let's take a look at the current situation to see which option is best.

It went from being a star to a dog

National Bank had a nice run after the financial crisis. In fact, the stock rose from \$32 per share in late 2011 to nearly \$55 in 2014. The name has since pulled back and even hit \$40 last month on news of layoffs and a potential write down on a bad investment.

Bargain hunters have driven the stock up about 10% in the past few weeks, but the issues that sparked the sell-off are still at hand.

Troubled times

National Bank announced an \$85 million restructuring charge on October 1. The bank is cutting several hundred jobs and said it would raise \$300 million through an equity issue to shore up the balance sheet.

Why?

The bank said it was at risk of seeing its CET1 ratio drop below the 9.5% minimum allowed for Canadian banks. The reason is linked to the possible write down of a \$165 million investment in **Maple Financial Group**, which owns a German subsidiary that is in hot water with authorities for some alleged tax irregularities.

The size of the equity issue doesn't sound like a lot of money for a Canadian bank, but you have to keep in mind that National Bank is much smaller than its peers.

When you take the market capitalization into consideration, a similar capital issue announced by **Royal Bank of Canada** would be about \$2.2 billion.

That's not exactly chump change.

National Bank cited competitive pressures and a difficult economic environment for its decision to reduce staff.

Is this an opportunity or a warning sign?

Investors have decided to ignore the news because the stock is higher now than it was before the announcement.

Is the market right?

Maple Financial Group is responsible for less than 1% of National Bank's earnings, so the impact is negligible.

National Bank's stock currently trades at an attractive 8.8 times forward earnings and offers a dividend yield of 4.8%. The payout ratio is only 42%, so the distribution looks safe.

The company has increased the payout nine times in the past five years, but that trend might change in the coming quarters.

Should you buy?

Economic headwinds are one thing, but the larger issue could be the competitive threats coming from non-bank mobile payment players. National Bank is going to have a tougher go than its peers because it simply doesn't have the size or funds that might be needed to fight off the competitive threats.

The extra yield is attractive but I don't think it is enough to justify the risk right now. Investors should at least wait for the next earnings release before stepping in, just in case more bad news is on the way.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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