



## 3 Reasons Why National Bank of Canada Is a Steal at \$40 Per Share

### Description

**National Bank of Canada** ([TSX:NA](#)), the sixth-largest bank in Canada in terms of total assets, has watched its stock fall over 18% in 2015, but I think it is an absolute steal at just \$40 today. Let's take a closer look at three of the primary reasons why I think the stock will head higher from here and why you should be a long-term buyer of it today.

#### 1. Its strong financial performance could support a much higher share price

On December 2, National Bank announced very strong earnings results for its fiscal year ended on October 31, 2015. Here's a summary of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 5.6% to \$1.68 billion
2. Adjusted earnings per share increased 4.9% to \$4.70
3. Total revenue on a taxable equivalent basis increased 6.1% to \$5.98 billion
4. Non-interest income increased 5.3% to \$3.01 billion
5. Net interest income increased 6.9% to \$2.97 billion
6. Total assets increased 5.2% to \$216.09 billion
7. Total deposits increased 7.5% to \$128.83 billion
8. Total loans and acceptances increased 8.5% to \$115.24 billion
9. Total assets under administration and management increased 3.7% to \$358.14 billion
10. Book value per share increased 9.7% to \$28.26

#### 2. Its stock trades at very inexpensive valuations

At today's levels, National Bank's stock trades at just 8.6 times fiscal 2015's adjusted earnings per share of \$4.70, only 8.5 times fiscal 2016's estimated earnings per share of \$4.76, and a mere 8 times fiscal 2017's estimated earnings per share of \$5.05, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.1 and the industry average multiple of 12.9.

With the multiples above and its estimated 7.1% long-term earnings growth rate in mind, I think National Bank's stock could consistently trade at a fair multiple of at least 10, which would place its

shares upwards of \$47 by the conclusion of fiscal 2016 and upwards of \$50 by the conclusion of fiscal 2017, representing upside of more than 16% and 23%, respectively, from current levels.

### **3. It has a high and safe yield with an active streak of annual increases**

National Bank pays a quarterly dividend of \$0.54 per share, or \$2.16 per share annually, which gives its stock a 5.35% yield, and this is more than double the industry average yield of 2.3%.

Investors should also make two very important notes. First, the company has increased its annual dividend payment for five consecutive years, and the 3.8% increase it announced on December 2 puts it on pace for 2016 to mark the sixth consecutive year with an increase. Second, it has a target dividend-payout ratio of 40-50% of net income, so its consistent growth should allow this streak to continue for the next several years.

### **Does National Bank of Canada belong in your portfolio?**

National Bank of Canada is an absolute steal at just \$40 per share, so all Foolish investors should strongly consider making it a core holding today.

#### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

#### **TICKERS GLOBAL**

1. TSX:NA (National Bank of Canada)

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