



Dividend Investors: Should You Buy National Bank of Canada for the 5.4% Yield?

Description

National Bank of Canada ([TSX:NA](#)) is down nearly 20% in 2015, and dividend investors are wondering if the selloff is a good opportunity to pick up the stock.

Let's take a look at the current situation to see if the bank deserves to be in your portfolio.

Earnings

National Bank reported fiscal Q4 2015 net income of \$347 million, up 5% from the same period last year. Diluted earnings per share came in at \$0.95, up from \$0.91 in Q4 2014.

Return on equity came in at 13.6%, down from 14.3% a year earlier.

The numbers were actually pretty good considering the difficulties the bank is facing in the market.

Tough times

National Bank announced an \$85 million restructuring charge in early October that caught the market off guard and sent the shares sharply lower.

The news wouldn't have been so bad if job cuts to reorganize the bank's operations were the only issue, but the company also said it was going to raise \$300 million in new capital to keep the CET1 ratio above the minimum 9.5%.

The equity issue was done to cover a potential write down of \$160 million on an investment in Maple Financial Group, a privately owned Canadian company with a German subsidiary that is in trouble with the German tax authorities.

National Bank's shares regained their lost ground by the end of October but have since fallen back and are trading close to a 12-month low.

Maple Financial accounts for less than 1% of National Bank's earnings, so the hit on the bottom line is negligible. The worry for investors should be more with the company's investment decisions.

On December 13, *Bloomberg* published an article that says National Bank recently spent \$15 million to buy a 10.5% stake in a Mongolian micro-lender that helps nomadic herders open savings accounts and access lines of credit. Again, the numbers aren't significant, but with all the challenges going on here at home, investors have to ask themselves why National Bank is investing in Mongolia.

The *Bloomberg* article also points out that National Bank's purchase is the first strategic investment by a foreign commercial bank in the Mongolian banking system.

Dividend safety

National Bank just raised its quarterly dividend by 4% to \$0.54 per share. The payout ratio in Q4 was 45%, so the company is certainly capable of covering the distribution.

Should you buy National Bank?

The stock is trading at an attractive 8.9 times trailing earnings and the dividend should be safe, but investors might want to be careful for other reasons.

In the restructuring announcement the company said it has to cut hundreds of jobs to respond to competitive pressures in a difficult economic environment. The situation is unlikely to get better in 2016 and National Bank doesn't have the same financial firepower as its peers to fend off some of the new mobile and online challenges from non-bank competitors.

At this point, I would avoid the stock.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/09/30

Date Created

2015/12/23

Author

aswalker

default watermark