



National Bank of Canada's 5.4% Dividend Deserves More Attention

Description

With a market cap of \$13.4 billion, 20,000 employees, and assets in excess of \$210 billion, **National Bank of Canada** ([TSX:NA](#)) is no small force in the Canadian banking sector. It's the leading bank in Quebec, and it has branches in nearly every other province.

With most coverage dedicated to even larger banks such as **Royal Bank of Canada** ([TSX:RY](#)) ([NYSE:RY](#)), investors might be surprised to find that National Bank of Canada has a higher dividend yield and, on many metrics, a cheaper valuation.

Here's what investors need to know about this high-yield dividend payer that's beaten the market over the past one-, five-, and 10-year periods.

Leveraging its strengths

While most major Canadian banks have trumpeted their overseas expansion, National Bank of Canada has stuck with the markets it knows best, namely Quebec. This year around 80% of revenues should be derived from inside Quebec.

Within its business lines, however, the company is fairly diversified with a roughly even split of revenues coming from Wealth Management, Financial Markets, and Personal and Consumer Banking. A focus on Quebec has brought about some unexpected benefits as well, specifically its naturally low exposure to oil-dependent areas like Alberta. Quebec accounted for more than half of all jobs created in Canada in 2015, while actually benefiting from low oil prices and a weak currency.

A strict focus is what's kept returns high, especially compared with its competition. Its return on equity last year was roughly 17.4%, over a full percentage point higher than its Canadian peers. Earnings per share, meanwhile, have grown from \$3.13 in 2010 to over \$4.70 today. Over the long run, the company anticipates growing earnings by 5-10% annually. That, along with its 5.4% dividend, should provide ample total shareholder returns.

What's next?

National Bank of Canada anticipates continuing to grow its core business through multiple strategies. In recent years, it's positioned its business lines to cross-sell more products, while increasing communication across departments to get ahead of industry changes.

For example, while competitors typically have different segments controlling various parts of the business (such as credit cards, deposits, or lending), National Bank of Canada has brought them all under one system, so it can run analytics on the entire business and share trends and data. Efforts like this should help the company reach its 2018 revenue target of \$6.6 billion, 18% higher than 2015 levels of just \$5.6 billion.

Meanwhile, focused cost savings should help boost the bottom line. In its Personal and Consumer Banking segment alone, management has earmarked over \$65 million in potential savings. That's a big reason why earnings this year are expected to grow to \$4.75 a share, implying a valuation of only 8.4 times earnings.

Shares also currently trade at only 1.4 times book value, a meaningful discount from Royal Bank of Canada, which trades at 1.8 times book. In all, it looks like National Bank of Canada is poised to continue to grow the bottom line, pay out a sizable 5.4% dividend, while avoiding economically troubled regions like Alberta.

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1. NYSE:RY (Royal Bank of Canada)
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