



National Bank of Canada Beats Q1 Estimates: Should You Buy Now?

Description

National Bank of Canada ([TSX:NA](#)), the sixth-largest bank in Canada, announced better-than-expected first-quarter earnings results this morning, and its stock has responded by moving higher. Its stock still sits more than 23% below its 52-week high of \$50.26 reached back in May 2015, so let's take a closer look at the results and its fundamentals to determine if it could continue higher from here and if we should be long-term buyers.

A strong quarter of top- and bottom-line growth

Here's a summary of National Bank's first-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Diluted Share	\$1.17	\$1.14	\$1.14
Adjusted Revenues (TEB)	\$1.53 billion	\$1.47 billion	\$1.46 billion

Source: Financial Times

National Bank's adjusted earnings per diluted share increased 2.6% and its adjusted revenues on a taxable equivalent basis increased 4.9% compared with the first quarter of fiscal 2015.

Its slight earnings-per-share growth can be attributed to its adjusted net income increasing 4.1% to \$427 million, driven by growth in all three of its major segments, including 5.1% growth to \$186 million in its Financial Markets segment, 7.6% growth to \$184 million in its Personal and Commercial Banking segment, and 3.7% growth to \$84 million in its Wealth Management segment.

Its strong revenue growth can be attributed to growth in all three of its major segments as well, including 4.6% growth to \$724 million in its Personal and Commercial Banking segment, 7.9% growth to \$451 million in its Financial Markets segment, and 3.5% growth to \$358 million in its Wealth

Management segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Net interest income increased 4.1% to \$763 million
2. Non-interest income increased 5.6% to \$767 million
3. Total assets increased 2.3% to \$219.3 billion
4. Total deposits increased 9.9% to \$131.06 billion
5. Total loans and acceptances increased 10.4% to \$118.51 billion
6. Book value per share increased 5.5% to \$27.77

National Bank also announced that it will be maintaining its quarterly dividend of \$0.54 per share, and the next payment will come on May 1 to shareholders of record at the close of business on March 28.

Should you add National Bank of Canada to your portfolio?

It was a solid quarter overall for National Bank, and the results surpassed expectations, so I think the market has responded correctly by sending its shares higher. I also think this could be the start of a sustained rally higher and that the stock represents a great long-term investment opportunity today for two primary reasons.

First, it's wildly undervalued. National Bank's stock trades at just 8.2 times fiscal 2016's estimated earnings per share of \$4.70 and only 7.8 times fiscal 2017's estimated earnings per share of \$4.95, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10 and the industry average multiple of 12.8.

It also trades at a mere 1.39 times its book value per share of \$27.77, which is a very inexpensive compared with its five-year average market-to-book value of 1.85.

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 price-to-earnings multiple of at least 10, which would place its shares upwards of \$49 by the conclusion of fiscal 2017, representing upside of more than 26% from today's levels.

Second, it has one of the best dividends in the banking industry. National Bank pays an annual dividend of \$2.16 per share, which gives its stock a very high and safe yield of about 5.6%. It is also important to note that the company has raised its annual dividend payment for five consecutive years, and its recent increases, including its 3.8% hike in December 2015, has it on pace for 2016 to mark the sixth consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors should strongly consider beginning to scale in to long-term positions in National Bank of Canada today.

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1. TSX:NA (National Bank of Canada)

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