



## National Bank of Canada: A 4.7% Dividend Plus So Much More

### Description

Once people find out I write about stocks, I commonly get asked the same question: “What’s your favourite Canadian bank?”

It’s pretty obvious why investors love Canada’s banks. They dominate their sector with little disruption risk. Growth potential continues to be solid at home and abroad. Dividends and dividend growth have both been outstanding over the years; many banks in the sector have streaks of a century or more of paying consecutive annual dividends.

So I usually answer the question in a perhaps predictable yet unsatisfying way: “It doesn’t really matter. They’re all good.”

There are pluses and minuses for each Canadian bank. All that really matters is how the market perceives a particular issue at any point in time. If a bank is doing something the market likes, such as **Toronto-Dominion Bank** and its exposure to the United States, investors will give it a premium valuation. And if a bank is doing something the market doesn’t like, investors will punish it with a discounted valuation. It isn’t really that hard.

**National Bank of Canada** ([TSX:NA](#)) has traditionally traded at a lower valuation than its larger peers. Here’s why I think that gap may close in the next few years.

### A big potential catalyst

There’s one reason why National Bank has traded at a discount over the years, especially lately. It has too much Canadian exposure.

All of its larger peers are either already operating internationally or are taking steps to make it happen. Investors like the diversification, so they attract a higher valuation.

Let’s face it; the Canadian economy isn’t really in the greatest shape right now. The energy sector has recovered from lows set in January, but there are still dozens of producers that need higher prices.

The housing market is a big risk too. Home values in Vancouver have already [started to come down](#) after British Columbia passed a 15% land transfer tax on foreign buyers. Perhaps Toronto is next. It would be bad news for our largest lenders if the two biggest housing markets crashed.

There's an easy way for National Bank to solve this issue. All it needs to do is expand internationally.

The United States is an easy choice. It has hundreds of small banks that could easily be gobbled up by National Bank and its \$15.9 billion market cap. Or it could go the path of **Bank of Nova Scotia** and look towards acquiring a small bank in Central or South America, or perhaps somewhere in developing Asia.

The sky truly is the limit, assuming National Bank's management is actively seeking such a deal. I think they're nuts to not be at least considering it.

### **A 4.7% dividend to wait**

Even if National Bank doesn't go shopping, it still has the potential to be a good investment.

A big part of that is the bank's dividend, which currently stands at 4.7%. The payout has already been hiked twice in the last year and has gone up from \$0.20 per share quarterly a decade ago to \$0.55 per share today. That is some terrific dividend growth.

Analysts expect National Bank will earn \$4.92 per share in 2017 after a somewhat weak 2016. That puts shares at less than 10 times forward earnings. No other bank trades this cheaply.

Even if the discount between National and its peers persist, it still has good potential. Earnings should grow over time, even if that growth is uneven. And as the smallest major Canadian bank, it has the best potential to grow domestically.

Investors looking for value in the banking space today have one great option. National Bank delivers a great dividend, has solid growth potential, and, perhaps best of all, has the possibility of making a transformational acquisition. These are all very good things for long-term investors.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:NA (National Bank of Canada)

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### **Date**

2025/07/07  
**Date Created**  
2016/08/30  
**Author**  
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