Why National Bank of Canada Is Down 2% Today

Description

National Bank of Canada (TSX:NA), Canada's sixth-largest bank, announced better-than-expected third-quarter earnings results this morning, but its stock has responded by falling about 2% in early trading.

Let's break down the results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity or a warning sign.

Breaking down the better-than-expected results

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

Metric	Q3 2016 Actual	Q3 2016 Expected	Q3 2015 Actual
Adjusted Diluted Earnings Per Share	$1.33	$1.20	$1.25
Adjusted Revenues (TEB)	$1.61 billion	$1.56 billion	$1.55 billion

Source: Financial Times

National Bank's adjusted diluted earnings per share increased 6.4% and its adjusted revenue on a taxable equivalent basis (TEB) increased 3.7% compared with the third quarter of fiscal 2015.

Its strong earnings-per-share growth can be attributed to its adjusted net income increasing 9.5% year over year to $486 million, driven by 5.2% year-over-year growth to a record $203 million in its Personal and Commercial Banking segment and 4.9% year-over-year growth to $86 million in its Wealth Management segment, as well as a $21 million gain in its Other segment compared with a net loss of $17 million in the year-ago period.

The $21 million gain in its Other segment can be attributed to a $41 million non-taxable gain on a revaluation of its previously held equity interest in Advanced Bank of Asia Limited (ABA), a higher contribution from treasury activities, and a $9 million gain associated with its acquisition of ABA during the third quarter of 2016.

Its slight revenue growth can be attributed to a 1.1% year-over-year increase to $739 million in its Personal and Commercial Banking segment and a 4.3% year-over-year increase to $362 million in its Wealth Management segment, as well as a 1,280% year-over-year increase to $65 million in its Other segment for the same reasons mentioned before.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Adjusted net interest income (on TEB) increased 11.4% to $822 million
2. Non-interest income (on TEB) decreased 3.3% to $788 million
3. Total assets increased 6.7% to $229.9 billion
4. Total deposits increased 8.8% to $138.88 billion
5. Total loans and acceptances increased 10.6% to $124.79 billion
6. Total shareholders' equity increased 10.1% to $12.02 billion
7. Total assets under administration increased 5.5% to $332.23 billion
8. Book value per share increased 2.9% to $28.39
9. Adjusted return on common shareholders' equity improved to 19% from 18.4%
10. Adjusted efficiency ratio contracted to 57.9% from 58%

National Bank also announced that it would be maintaining its quarterly dividend of $0.55 per share, and the next payment will come on November 1 to shareholders of record at the close of business on September 26.

Should you buy National Bank on the dip?

It was a fantastic quarter overall for National Bank of Canada, so I do not think the market has responded correctly by sending its stock lower. With this being said, I think the decline represents a great buying opportunity for the long term for two fundamental reasons.

First, its stock is inexpensive. National Bank's stock now trades at just 11.3 times fiscal 2016's estimated earnings per share of $4.14 and only 9.6 times fiscal 2017's estimated earnings per share of $4.86, both of which are inexpensive given the low-risk nature of its business, the strength of its balance sheet, and its estimated 5.4% long-term earnings-growth rate.

Second, it has a great dividend. National Bank pays an annual dividend of $2.20 per share, giving its stock a very high yield of about 4.7% at today's levels, and its earnings easily cover this dividend. It has also raised its annual dividend payment for five consecutive years, and its three hikes since the start of 2015 have it on pace for 2016 to mark the sixth consecutive year with an increase, making it both a high-yield and dividend-growth play today.

All in all, I think the post-earnings decline in National Bank's stock represents nothing more than a long-term buying opportunity. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions today.

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1. TSX:NA (National Bank of Canada)

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