



Evaluating Canada's Banks: National Bank of Canada

Description

Throughout the year, the gains in shares of Canada's banks have started to level off. Given that the low-hanging fruit has disappeared, investors may now need to be a little more diligent about which financial stocks they choose to hold as an investment in the years to come.

Throughout the week, I will write articles about each institution. Make sure to check back daily.

National Bank of Canada ([TSX:NA](#)) is the country's sixth-largest bank with a market capitalization of almost \$20 billion. It's the only one of the six institutions with a head office based in Montreal, Quebec. The others are all based in Toronto, Ontario.

Currently trading at a trailing price-to-earnings ratio of approximately 12 times, investors who choose to deploy their investment dollars into this company will receive a dividend yield slightly above the 4% mark with solid increases in those payments over the past few years. The dividends per share have grown from \$1.66 per share for fiscal 2013 to \$2.15 per share during fiscal 2016. The dividends paid for the first half of fiscal 2017 totaled \$1.11 per share, which is an increase in comparison to the same period one year earlier. Future dividend increases can be expected.

From 2013 to 2016, the compounded annual growth rate of dividends was 9%, while the earnings per share (EPS) fell from \$4.31 to \$4.13. As a result of lower earnings and higher dividends, the dividend-payout ratio increased from 38.5% to 52%. One factor that did not help the company during this time was the total number of shares outstanding, which increased from 326 million for fiscal 2013 to 338 million for fiscal 2016.

In any case, a company that divides total earnings by a larger number will have a smaller amount of EPS. It's very basic math.

It gets a little more complicated with the return on equity. National Bank of Canada ended 2013 with total equity of \$8.164 billion and earnings of \$1.449 billion. Although we could use the average amount of equity from the previous year's financial statements, there is no need to complicate things. The return on equity, found by dividing the net income by the ending shareholders' equity ($1.449/8.164$), was 17.7% in 2013. For the 2016 fiscal year, the same calculation led investors to obtain return on

equity of 10.5%.

Over the course of four years, the company has not been successful in better using the equity. Investors must remember that the returns of a financial institution such as National Bank of Canada come from the company's ability to take in money at a low cost and lend it back out at a higher cost. Although the company is financed with both debt and equity, the return on equity metric is most often valued the highest. Investors want to know how much money was put into a company and just how well management has performed with that money.

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