



National Bank of Canada: A Canadian Bank With a Unique Flavour

Description

National Bank of Canada ([TSX:NA](#)) is Canada's sixth-largest bank, and it's a dividend-growth king, just like its bigger brothers. When investors think of Canadian banks, usually the Big Five come to mind, but more recently, the general public is starting to include National Bank of Canada as a part of the big banks group. National Bank of Canada deserves to be included in the batch with its bigger brothers, so here's what investors should know about Canada's smallest large-cap bank.

The unique flavour of National Bank of Canada

Each Canadian bank has its own unique flavour. Some banks are focused on international expansion; some are focused on gaining traction in the U.S.; and others are content with keeping a majority of operations in Canada. National Bank of Canada operates predominantly in Quebec with ~62% of total revenues coming from the province. National Bank of Canada is primarily a regional bank, so investors who want geographic diversification would probably be better off with one of its Big Five peers.

National Bank of Canada has been taking steps to diversify its retail banking segment with ventures into the U.S., as well as emerging markets like Cambodia and Mongolia, where there's greater long-term upside for a slight increase in the segment's risk profile. As of right now, National Bank of Canada has only scratched the surface in its international expansion plan. The bank is still primarily a play on the Quebec economy with its huge presence in the province.

Decent Q3 2017 results

In Q3 2017, National Bank of Canada clocked in an adjusted EPS of \$1.39, up 4% compared to the same period last year. Revenue also jumped 8% on a year-over-year basis, and margins increased 12 basis points on a quarter-over-quarter basis thanks to growth in Credigy.

Domestic P&C earnings jumped 21% year over year thanks to a stronger operating leverage, which resulted from restructuring initiatives taken last year. The management team noted that at current levels the operating leverage is not sustainable.

Bottom line

National Bank of Canada is a well-run domestic bank that is making moves to adopt technology (investing in robo-advisors) and diversify its total revenues by venturing into foreign markets. However, in the end, National Bank of Canada is still a domestic bank, which many pundits believe has a “lower-quality” earnings stream compared to larger banks like **Toronto-Dominion Bank**, which I believe has the highest-quality earnings of all Canadian banks.

National Bank of Canada is making smart moves, but I think there's better value to be had with one of the Big Five banks at this point in time.

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Date

2025/08/26

Date Created

2017/09/11

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