



Why First National Financial Corp. Is up Over 2%

Description

First National Financial Corp. ([TSX:FN](#)), the parent company of Canada's largest non-bank originator and underwriter of mortgages, announced its third-quarter earnings results and a special dividend after the market closed on Tuesday, and its stock has responded by rising over 2% in early trading. Let's break down the quarterly results, the special dividend, and the fundamentals of its stock to determine if we should be long-term buyers today.

The Q3 results

Here's a quick breakdown of 12 of the most notable financial statistics from First National's three-month period ended on September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Mortgage originations	\$4.88 billion	\$4.78 billion	2.1%
Renewals	\$2.05 billion	\$1.42 billion	43.9%
Total originations and renewals	\$6.92 billion	\$6.20 billion	11.6%
Revenue	\$284.32 million	\$273.75 million	3.9%
Income before income taxes	\$80.01 million	\$69.84 million	14.6%
Pre-FMV EBITDA	\$51.83 million	\$67.47 million	(23.2%)
Net income	\$58.81 million	\$51.44 million	14.3%
Net earnings per share (EPS)	\$0.96	\$0.84	14.3%
Total assets	\$31.55 billion	\$30.53 billion	3.3%
Single-family residential mortgages under administration (MUA)	\$77.12 billion	\$76.82 billion	0.4%

Multi-unit and commercial MUA	\$23.05 billion	\$21.75 billion	6.0%
Total MUA	\$100.18 billion	\$98.57 billion	1.6%

Special dividend announcement

In the press release, First National announced a special, one-time dividend of \$1.25 per share, and it will be paid on December 15 to shareholders of record at the close of business on November 30.

What should you do with First National's stock now?

It was a solid quarter overall for First National given the headwinds facing the industry, including the "new mortgage insurance rules and rising interest rates," but I think the majority of today's rally can be attributed to the special dividend. That being said, I think the stock represents an attractive investment opportunity for the long term for two fundamental reasons.

First, it's very inexpensive. First National's stock trades at just 9.6 times fiscal 2017's estimated EPS of \$2.90 and only 9.5 times fiscal 2018's estimated EPS of \$2.91, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.9 and the industry average multiple of 12.2; these multiples are also inexpensive given its long-term growth potential.

Second, it has a great dividend. Aside from the special dividend, First National pays a monthly dividend of \$0.154167 per share, equating to \$1.85 per share annually, which gives it a lavish 6.7% yield. Investors must also note that the company's 8.8% dividend hike in February has it on track for 2017 to mark the sixth straight year in which it has raised its annual dividend payment, and I think its steady net income growth will allow this streak to continue into the 2020s.

With all of the information provided above in mind, I think all Foolish investors should consider initiating long-term positions in First National Financial today.

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