



## National Bank of Canada's Profits Jump as Efficiency Efforts Pay Off

### Description

**National Bank of Canada** ([TSX:NA](#)) recently reported a strong fourth-quarter profit, driven by growth in each of its key business segments and beating analysts' expectations.

#### An impressive Q4 and fiscal 2017

National Bank reported a net income of \$525 million — up 71% from \$307 million earned in the same quarter a year ago. Diluted EPS were \$1.39 versus \$0.78 in the fourth quarter of 2016.

Net income, excluding specific items, was \$531 million in the fourth quarter — up 15% from a year ago. Diluted EPS, excluding specific items, came at \$1.40 per share — up 13% from the same quarter in 2016 and \$0.02 higher than analysts' expectations.

Revenue totalled \$1.70 billion — up from \$1.57 billion.

On a less positive note, National Bank's provisions for credit losses — the money set aside to cover bad loans — jumped 19% to \$70 million due to Credigy Ltd., a U.S. subsidiary focused on buying distressed loans at discounted prices.

Profit from the core personal and commercial banking segment rose by 25% to \$239 million due partly to growing loans and deposits as well as improved deposit margins.

The wealth management arm also posted a 29% increase in profit to \$110 million due to improved margins and higher fees, helped by a rising stock market.

Despite a declining trading activity across the industry, the bank's capital markets returns bucked this trend with a 2% rise in trading revenue, thanks largely to 11% better revenue from equity securities. Profits of \$186 million from the division were \$10 million higher than a year ago.

National Bank's capital levels grew stronger with a common equity tier 1 (CET1) ratio of 11.2% compared with 10.1% a year earlier.

For the full year, Canada's sixth-largest bank reported a profit of \$2.02 billion, or \$5.38 a share, versus \$1.25 billion, or \$3.29 a share, for fiscal 2016, which represents a sharp increase of over 60%.

The Montreal-based bank boosted its quarterly dividend by \$0.02 to \$0.60 per share — a 3% rise that some analysts had anticipated. This brings the dividend yield to 3.7%. It was the second time that the bank hiked its dividend this year.

National Bank has a history of [raising its dividend regularly](#), and its 10-year dividend-growth rate is 7.7%.

### **The bank's plan to become more efficient is on track**

National Bank renewed its commitment to efficiency, as the bank enters a new phase of an aggressive plan to transform itself. CEO Louis Vachon said the bank is now shifting from a phase of heavy cost cutting and job losses to one that reduces costs by using technology to automate more of its processes.

After shedding about 600 jobs, the bank is investing a total of \$750 million a year on technology. Because of this move towards digitalization, it is now looking to hire 400 employees in the IT sector.

National Bank's efforts to increase efficiency are paying off, and it shows in the bank's numbers. Indeed, its efficiency ratio improved by more than 3% in the quarter to 55.2% compared with the final quarter of 2016.

The bank's net profit margin stands at 25%, and its return on equity is 16%.

Furthermore, National Bank's shares are cheap, with a P/E of 13 and a forward PEG of one. Their rate of return is near 14% over five years and 20% year to date.

In my opinion, National Bank is a great long-term investment offering safety and value. You've got [growth](#) for a low price as well as a safe, growing dividend.

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3. Investing

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1. Editor's Choice

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