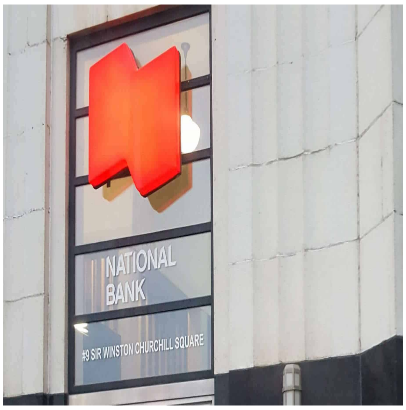

Why National Bank of Canada Is Down About 1%

Description

National Bank of Canada (TSX:NA), Canada's sixth-largest bank as measured by assets, announced its fiscal 2018 first-quarter earnings results this morning, and its stock has responded by falling about 1% at the open of the day's trading session. Let's break down the results and the fundamentals of its stock to determine if this weakness represents a long-term buying opportunity.

The first-quarter performance

Here's a quick breakdown of 10 of the most notable statistics from National Bank's three-month period ended January 31, 2018, compared with the same period in 2017:

Metric	Q1 2018	Q1 2017	Change
Net interest income	$834 million	$853 million	(2.2%)
Non-interest income	$972 million	$780 million	24.6%
Total revenues	$1,806 million	$1,633 million	10.6%
Net income excluding specific items	$556 million	$502 million	10.8%
Diluted earnings per share (EPS) excluding specific items	$1.48	$1.35	9.6%
Total assets	$251,065 million	$245,827 million	2.1%
Total deposits	$156,779 million	$156,671 million	Relatively unchanged
Total loans and acceptances	$136,352 million	$136,457 million	Relatively unchanged
Assets under administration and under management	$495,702 million	$477,358 million	3.8%
Book value per share	$31.75	$29.51	7.6%

Is now the time to buy?

It was a strong quarter overall for National Bank, highlighted by double-digit percentage growth in revenue and adjusted net income, and this performance was driven by "excellent performance in each business segment, particularly sustained revenue growth and effective cost management." With its strong performance in mind, I think the market should have responded by sending its stock higher, and I think the weakness represents a very attractive entry point for long-term investors for two fundamental reasons.

First, it's undervalued. National Bank's stock now trades at just 10.8 times the consensus EPS estimate of $5.82 for fiscal 2018 and only 10.1 times the consensus EPS estimate of $6.26 for fiscal 2019, both of which are inexpensive given its current earnings-growth rate and its estimated 11.2% long-term earnings-growth rate; these multiples are also inexpensive compared with its five-year average multiple of 11.3.

Second, it has a high yield and a reputation for dividend growth. National Bank currently pays a quarterly dividend of $0.60 per share, equating to $2.40 per share annually, which gives it a yield of about 3.8%. It has also raised its annual dividend payment for seven consecutive years, and its 3.4% hike in December has it positioned for fiscal 2018 to mark the eighth consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in National Bank of Canada's stock to begin scaling in to long-term positions.

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jsolitro