



Have You Considered This Other Big Bank?

Description

Earlier this week, I made the case for [contemplating an investment](#) in one of Canada's smaller Big Banks, specifically **Canadian Imperial Bank of Commerce**. While the potential opportunity that I mentioned in that piece still stands, there's another smaller bank that may be worthy of mention as well for those investors looking to diversify their financial portfolios.

The bank I'm referring to today is **National Bank of Canada** ([TSX:NA](#)).

Meet National Bank: a smaller, interesting alternative

When we talk about Canada's Big Banks, we often disregard National Bank from mention. With a market cap of just over \$20 billion, National Bank is less than half the value of its next biggest peer on the list, but potential investors should not eliminate the bank entirely based on size. Instead, let's take a moment to talk about recent results, the market opportunity, and the income potential from investing in National Bank.

Strong results are the norm for National Bank. In the most recent quarterly update, the bank reported net income of \$566 million, representing a solid 8% gain over the \$525 million reported in the same quarter last year. On a per share basis, National Bank earned \$1.53 per diluted share in the quarter, also beating the \$1.40 earned in the same period last year, with noted growth across National's different segments being attributed to the rise.

Specifically, the Personal and Commercial segment reported net income of \$257 million in the quarter, reflecting a strong 10% increase over the prior period, which was largely attributed to higher loan deposits and a wider net interest margin. National's Wealth Management segment saw net income hit \$124 million in the quarter, surging 14% better than the same quarter in fiscal 2017, which was also attributed to higher deposit volumes as well as fee-based and transaction-based revenues brought in through an increased number of transactions.

The one area that remained flat in the quarter was National's U.S. Specialty Finance and International segment, which drew in \$55 million in net income, on par with the same period last year despite a

noted increase in deposits and net income gains from National's ABA Bank subsidiary.

From a market exposure standing, most investors realize that National Bank has a strong handle over the Quebec market. Most of National's branches are located in the province, which by extension leads to most of the bank's revenue stemming from there. This is a unique factor that investors should consider for two, often-discounted reasons.

First, the real estate market in Quebec has largely escaped the illogical surge into the stratosphere witnessed in both Toronto and Vancouver. This has led to a period of strong and stable growth for the company, and addresses much of the diversification fears that financial sector critics often make with respect to National's Big Bank peers. That's not to say that National hasn't moved out to the rest of Canada and internationally — it has and will continue to do so, which leads me to my second point.

National's path to expansion seems clear. Unlike the other Big Banks that [expanded into foreign markets](#) to expand their footprint and diversify their portfolios, National can continue to steadily expand into the other provinces without worry.

Finally, perhaps one of the most compelling reasons to consider National Bank comes in the form of the quarterly dividend. The handsome 4.27% yield on offer is both appetizing and growing, thanks to a series of very generous and competitive hikes to the payout in recent years that have surpassed the other Big Banks. By example, in 2018, the bank rewarded investors with a 7% hike, which followed two separate hikes in fiscal 2017. Turning to this year, investors can expect to be rewarded with another handsome hike, thus solidifying the stock as a great income-producer.

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