



Q2 Earnings Preview: The Smallest of the Big Six Banks

Description

National Bank ([TSX:NA](#)) is the smallest of the Big Six Canadian banks. However, it boasts a huge footprint in its home province of Quebec. Shares have climbed 13.8% in 2019 as of early afternoon trading on May 1.

In March I explained why National Bank was the [perfect pick for a balanced portfolio](#). The stock has increased 42% over the past three years. It has been the highest performing bank stock in terms of capital growth over this period. National Bank has a [strong dividend](#) to boot, making it an attractive option in a competitive group.

National Bank is expected to release its second-quarter results for 2019 in the final days of May. The bank released its first-quarter results on February 27. It was a mixed bag across the board for many of the top banks. Capital Markets segments suffered due to severe market turbulence, which closed out the 2018 calendar year. Fortunately, markets have surged to start 2019.

In the first quarter, net income at National Bank was mostly flat, reported at \$552 million compared to \$550 million in the prior year. Diluted earnings per share rose 3% year-over-year to \$1.50.

National Bank posted growth in net income in its Personal and Commercial, Wealth Management, and U.S. Specialty Finance and International segments of 7%, 10%, and 20%, respectively. As expected, it was a different story in its financial markets segment.

Net income totalled \$170 million, which represented a 17% drop from the prior year. First quarter total revenues in financial markets fell 10% year-over-year to \$410 million primarily due to lower investment banking revenues and lower investment returns. Investors should expect a much more positive picture in the second quarter.

Global markets have rebounded nicely from one of the worst Decembers in the modern era. The **S&P/TSX Composite Index** was up 15.4% in 2019 as of early afternoon trading on May 1, which worked out to a one-year return of 9.2%.

U.S. markets have also enjoyed a significant bounceback in 2019. The **Dow**, **S&P 500**, and **NASDAQ**

have all hit or challenged record highs in the first four months of the year.

The fundamentals in the broader Canadian economy are still troublesome, however. The Bank of Canada continues to warn about slow growth in 2019, but on the bright side, it appears that it has abandoned its rate tightening path for the year.

This should reduce pressure on consumers in the near term. National Bank's home province of Quebec has seen slumping growth in the broader economy. Its housing market, which had been a point of strength in comparison to other provinces, has started suffering from a decline in sales activity.

National Bank recently announced that it would boost its footprint in Cambodia, where it currently owns a 90% stake in the ABA Bank of Cambodia. The economy of Cambodia is expected to enjoy high growth into the next decade and is forecast to have the sixth-fastest growing economy in the world in 2019.

National Bank stock is currently trading at the high end of its 52-week range. As of this writing, it boasted an RSI of 75, putting it in technically overbought territory. However, investors should give stocks some leeway in this red-hot market.

National Bank and its peers are poised for an earnings rebound in Q2 2019, but investors should be careful not to burn themselves on these high valuations as we approach the midway point of the year.

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