This Stock Has Delivered 459% Gains — and Still Has Room to Grow

Description

One of the dirty little secrets of the stock market is a relatively small number of stocks end up delivering most of the entire market's total return. Most stocks just languish, not contributing much at all to an index's long-term results.

Once an investor realizes this, their whole approach often changes. Suddenly, previous returns matter. You're much more likely to choose a stock with excellent long-term results, hoping to jump onto that bandwagon while it still has some momentum.

Personally, now that I know this, I've adjusted my investing style a little. I try to choose great companies that have been long-term wealth creators, rather than permanently cheap value stocks. I still insist on a reasonable price, of course. But I'm less focused on valuation than before.

Let's take a closer look at a stock that has quietly delivered a 459% gain over the last decade — including reinvested dividends — that still has plenty of potential to get bigger.

An under-the-radar lender

Canada's largest banks get the majority of investor attention, and for good reason. These companies have made countless investors rich over the years.

But focusing on the largest banks may not be the most profitable path going forward. It's really hard for a big bank to grow its bottom line by more than 5-8% annually. A more specialized financial company can deliver better growth because it's a smaller and more nimble organization.

First National Financial Corp (TSX:FN) is a fantastic example. It has grown to become Canada's sixth-largest mortgage lender, with some $107 billion worth of mortgages under administration, all without opening a single bank branch.

The company originates all of its loans through mortgage brokers, which then communicate with a handful of regional offices. It's a brutally efficient operation that keeps rates low — savings that are then passed onto customers. First National's mortgage rates are usually among the lowest in the market.

Despite lackluster results from many of Canada's top real estate markets during the first quarter, First National managed to grow Q1 revenue by 12%; its total mortgages under administration by 5% versus the same quarter last year. Investors should note that earnings were down approximately 30% on tighter interest margins, something that always happens as rates head lower. Management isn't concerned however, citing a strong March as reason for optimism.

A dividend growth machine

First National has delivered stellar dividend growth since 2011, despite it paying out much of its earnings back to shareholders. The current yield is 6.2%.

The payout in 2011 was $1.25 per share on an annual basis. That payout has been hiked every year since, and is on pace to equal $1.90 per share in 2019. Investors should also remember the company has paid periodic special dividends, including $1.25 per share in 2017 and $1 per share in 2018.

You won't find many stocks with this combination of current yield and historical dividend growth.

Stellar long-term returns

First National has quietly been one of the **TSX Composite Index'** top stocks over the past decade. If you would have invested $10,000 in the company back on May 29, 2009 and held until today — while reinvesting dividends — your investment would have grown to $55,955. That's a total return of 459%, or 18.78% annually.

Yes, I know the past decade has been a nice time to own stocks. But it's still an impressive result, especially when you compare it to the index. The TSX Composite Index is up a little more than 100% over the last decade, including reinvested dividends. That's a decent result, but nothing compared to First National's greatness.

The company still has plenty of growth ahead of it, too. A typical year sees between $200 and $250 billion worth of new mortgages here in Canada, a number that will slowly increase over time as real estate continues to appreciate. As long as mortgage brokers stay competitive, First National will continue to get new business.

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