



## Become Wealthy With This Big Bank Stock

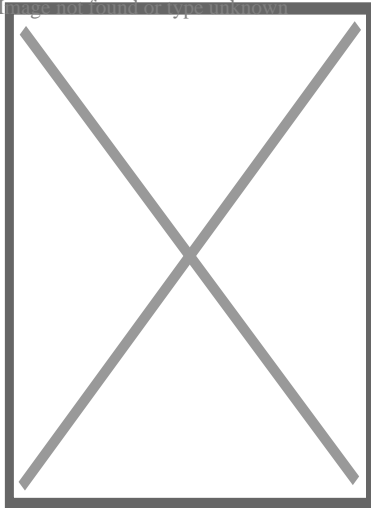
### Description

Believe it or not, **National Bank of Canada** ([TSX:NA](#)) has actually been around for 160 years. It has risen through the ranks to become the sixth-largest bank in Canada and is among the most profitable banks around the world by return on equity (ROE).

The bank's results and growth are largely reliant on the health of the Canadian economy (particularly in Quebec) because about 87% of its revenue is based in Canada, across the three segments of Personal and Commercial Banking, Wealth Management, and Financial Markets. Geographically, it generates about 58% of its revenues from Quebec.

Over the long run, if you had bought National Bank stock at a fair valuation and was able to sell it at a fair valuation, you would have gotten total returns of about 10% per year — these are returns that beat the Canadian market returns with lower risk!

Of course, if you had bought it at a low during the last recession, you would have gotten a super boost in returns from multiples expansion and returns of as high as 17% per year with \$10,000 transforming your investment to more than \$51,000!



## How is National Bank doing?

In the first half of the fiscal year, National Bank generated revenues of \$3,569 million, which was essentially flat against the same period in the prior year. Net income was \$1,110, up 1.2%.

Diluted earnings per share (EPS) was \$3.01, up 3.8%, which got a boost from share buybacks. Although the ROE declined from 18.6% to 17.5%, it was still solidly in the teens.

The bank shows confidence in the company by increasing its quarterly dividend to \$0.68 per share, 4.6% higher than the previous dividend, or 8.3% higher on a trailing 12-month basis. The dividend hike also implies a forward yield of nearly 4.5% at \$60.71 per share as of writing.

Its payout ratio is estimated to be about 44% this year, which aligns with its historical payout ratio range. Therefore, National Bank's dividend is safe and should continue to grow roughly at the pace of earnings growth.

## Foolish takeaway

The Conference Board of Canada projected slower GDP growth in Canada this year over 2018. The GDP growth in Quebec is also expected to slow to about 1.9% versus 2.4% last year.

National Bank's five-year EPS growth rate was 7.3%, but with expected slower growth, it would be more prudent to revise to a lower estimated growth rate of, say, 6% per year for the next few years. Buying NA stock today can still deliver long-term returns of about 10.5% per year, which is quite good in [a low-risk stock](#).

Shares bought today and on any further dips will [create great wealth](#) for long-term investors.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks

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