



## Buy National Bank of Canada Today and Lock in a 4% Yield

### Description

Canada's sixth largest bank, **National Bank of Canada** ([TSX:NA](#)), has been the best performing of the big banks, gaining almost 20% since the start of the year. That strong performance can be attributed to National Bank consistently reporting solid results despite being the most domestically focused of the big six and the [headwinds](#) facing Canadian banks.

### Strong results

For the third quarter 2019, National Bank reported some solid numbers. Revenue grew by 10% year over year to \$2 billion, while net income shot up by 7% to \$608 million, and diluted net earnings per share rose by 9% to \$1.66. That solid performance was driven by a favourable economic climate in Quebec, where most of National Bank's operations are centred, a focus on cost management, and strong loan and deposit growth.

By the end of the third quarter, National Bank's loans under management had grown by 12% to \$1.6 billion, and deposits had surged by a healthy 32% to \$886 million. National bank's earnings will continue to grow despite the industry's challenges, caused by a soft economy and [housing market](#). This is because it is focused on enhancing its margins through reducing costs and driving greater efficiencies in its business.

That saw National Bank's third quarter 2019 efficiency ratio decrease by a healthy 1% year over year to 53.5%. The efficiency ratio is a measure of how effectively a bank can generate revenue from its assets, and the lower the ratio, the more efficient its operations.

Importantly, National Bank has a robust credit portfolio, as seen in its third-quarter gross impaired loan ratio of 0.44%, which was the same as the equivalent period in 2018. This indicates that even a significant economic downturn – which would spark a decline in the credit cycle and higher loan defaults – would have little impact on the bank's balance sheet.

Such an event would be further mitigated by 40% of National Bank's Canadian mortgages being insured at a low average loan-to-valuation ratio of around 60% for uninsured mortgages and home

equity lines of credit (HELOCs).

The strength of National Bank's loan portfolio and operations sees it consistently delivering value for investors, as illustrated by its industry-leading return-on-equity (ROE), which for the third quarter 2019 was 18.6%, or 0.02% higher than a year earlier.

The bank's ability to consistently grow earnings and unlock value for shareholders has allowed it to hike its dividend for an impressive nine years straight, yielding a juicy 4%. The dividend's conservative payout ratio of 42% highlights that it is sustainable and can be maintained even if earnings dip because of a weak economy.

## Foolish takeaway

National Bank is often overlooked by investors in preference for one of its larger big six peers. While its domestic focus makes it vulnerable to an economic downturn or weaker housing market in Canada, National Bank has thus far proven highly resilient and continued to perform strongly.

This combined with its high-quality credit portfolio, focus on reducing costs, steadily growing earnings, and sustainable dividend yield of 4%, make it a highly attractive investment.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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