



Invest in National Bank of Canada (TSX:NA) Today and Beat the Market in 2020

Description

Canada's major banks experienced a lacklustre 2019, with each of the Big Five banks failing to beat the market as a range of factors including a subdued economic outlook and cooler housing market weighing on their performance.

As a result of those lacklustre results, all the [Big Five banks](#) failed to beat the market, with the **S&P/TSX Composite Index** gaining almost 19% for 2019 compared to 13% for the best-performing of the Big Five.

One major Canadian bank that did beat the market and is poised to deliver further strong growth during 2020 is **National Bank of Canada** ([TSX:NA](#)). Canada's sixth-largest lender rallied by 27% during 2019 and will deliver further significant value in 2020.

Highly profitable

National Bank reported a solid 2019, including a notable return on equity (ROE) of 18%, indicating that it's the most profitable of Canada's six biggest banks.

That solid ROE can be attributed to the bank's ability to generate significant revenue from its assets despite a softer housing market and the considerable economic uncertainty that existed during 2019. National Bank's annual revenue grew by 4% year over year, while diluted earnings per share shot up 7%.

This was supported by the bank's efficiency ratio, a key measure of how effectively it can deploy its capital to generate earnings. The lower the ratio, the more efficiently the institution is using its assets to generate earnings. The industry consensus is that the ideal ratio is around 50%.

National Bank reported a 2019 efficiency ratio of 54.5%, which was 0.3% lower year over year, indicating that its focus on controlling costs and implementing operational efficiencies is boosting profitability.

There is every indication that the bank's earnings will grow at a steady clip during 2020. An improved economic outlook for Canada and expectations of a firmer [housing market](#), particularly in Montreal and Quebec City where National Bank's operations are focused, will boost growth.

PwC Canada anticipates that Montreal will be the fourth best-performing housing market in 2020 with Quebec City the seventh strongest. That will drive greater demand for mortgages in National Bank's core market of Quebec, boosting net interest income — and ultimately its bottom line.

Similar to its Big Six peers, National Bank is focused on building its wealth management business, which it envisages will become an important growth lever.

The bank's wealth management division ended 2019 with almost \$81 billion of assets under management, which was 17% greater than a year earlier, giving the division's net income a solid by 7.5% boost.

Notably, National Bank possesses a high-quality loan portfolio, as is evident from its gross impaired loan ratio of 0.44% at the end of 2019. Such a low ratio indicates that it would take a serious economic downturn and substantial increase in the volume of impaired loans to have a material impact on National Bank's balance sheet and earnings.

The bank is also well capitalized, finishing 2019 with a common equity tier one capital ratio of 11.7%, the same as 2018 and 0.5% greater than 2017.

Foolish takeaway

National Bank remains one of the top plays on Canada's saturated financial services sector. It has carved out a solid presence in Montreal and continues to deliver considerable value for shareholders, being the most profitable of the Big Six banks.

National Bank has positioned itself to create further value because of its high-quality credit portfolio, ongoing focus on implementing efficiencies across its operations and expansion of its wealth management business.

That will translate into further earnings growth, lifting its market value. While investors wait for National Bank's stock to appreciate, they will be rewarded by its sustainable and regular dividend yielding a juicy 3.9%.

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1. TSX:NA (National Bank of Canada)

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