Now Is the Time to Buy Canada's Most Profitable Big Bank

Description

Markets have corrected sharply over the last week with U.S. stocks recently suffering the biggest one-day loss since the Great Recession of 2008 to see the **Dow Jones Industrial** down by a whopping 12% since the start of 2020. The losses on the TSX have been far more moderated, with the benchmark **S&P/TSX Composite Index** losing just 5% over that period.

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Canada's big banks have been hit hard during the sell-off with the sixth largest lender **National Bank of Canada** (TSX:NA) plunging 3% for the year to date, creating an opportunity to acquire the most profitable of the Big Six banks at an attractive price and lock-in a juicy 4% yield.

Solid results

Like its larger peers, National Bank reported a solid fiscal first quarter 2020 with revenue growing by 8% year over year, net income shot up 12% and diluted earnings per share rose by a notable 13%.

What makes National Bank stand out among its peers is its industry-leading return on equity (ROE), a key indicator of profitability, which for the first quarter rose 1.1% to 18.3% the highest ROE of any of the Big Six banks. It was even higher than the impressive 17.6% reported for the same period by Canada's largest lender **Royal Bank of Canada**.

This makes it the most profitable of the big banks and highlights that despite its dependence on the domestic economy to drive earnings growth, National Bank is unlocking considerable value for investors.

Surprisingly, unlike its larger peers, National Bank has been able to achieve those impressive results with very little international exposure because its operations are centered on Quebec.

The key drivers of the bank's improved bottom-line was a 10% year over year increase in net income from its wealth management and financial markets businesses plus a whopping 42% increase from its U.S. and international operations.

It is important to note that National Bank's operations outside of Canada were only responsible for generating around 14% of its net income for the first quarter 2020.

Prior to the coronavirus outbreak there were considerable expectations that a firm economy and a stronger housing market would drive greater earnings growth for Canada's big six banks. National Bank's low international exposure will also help to reduce the impact of the coronavirus on its operations and earnings.

Strong financial position

The bank is also focused on driving greater efficiencies while controlling costs, which will see it become more profitable, particularly as it digitizes and further automates its service platform. National Bank finished the first quarter well capitalized with a common equity tier one capital ratio of 11.7%, well above the regulatory minimum.

It also has a high-quality credit portfolio, as evidenced by its gross impaired loans ratio of 0.43%, indicating that a significant increase in the value of impaired loans is required before it would have a material impact on National Bank's balance sheet.

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What makes National Bank a particularly appealing investment aside from its attractive valuation highlighted by it trading at a mere 11-times projected earnings, is its sustainable dividend yielding a juicy 4%.

The bank also offers a dividend reinvestment plan (DRIP), meaning that shareholders can unlock the power of compounding by using their dividends to acquire additional shares at no cost.

National Bank has performed strongly over the last decade, delivering a total return of 242%, if dividends were reinvested, a compound annual growth rate (CAGR) of 13%.

Foolish takeaway

National Bank is the best performer of the Big Six with a long history of delivering value for shareholders, as evidenced by its industry leading ROE. The latest market dip means that the bank is attractively valued, making now the time to buy and lock-in a 4% yield.

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