



Have \$1,000 to Invest? Buy Canada's Most Profitable Bank Today

Description

The market crash triggered by the coronavirus pandemic has witnessed the **S&P/TSX Composite** lose 22% over the last month. That has seen all the gains made since 2016 erased. While there could be worse ahead for stocks, this shouldn't deter you from buying quality Canadian dividend stocks.

Many, including **National Bank of Canada** ([TSX:NA](#)) are trading at considerable discounts to their pre-market crash prices. National Bank has lost 26% to be trading at its lowest price since 2016, making now the time to buy.

Solid results

Based on the bank's fiscal first-quarter 2020 results, it is the most profitable of the Big Six banks. National Bank reported a return on equity of 18.3%, which was 0.9% higher than a year earlier and an important measure of profitability.

National Bank's return on equity was higher than the other Big Six banks, with **Royal Bank of Canada** the [second most profitable](#), boasting a return on equity of 17.6%.

National Bank consistently generates solid numbers despite lacking the offshore operations of its peers. Its core market is Quebec, to some degree has shielded it from the increasingly gloomy economic outlook toward the end of 2019. Around 55% of National Bank's Canadian residential mortgages are in Quebec, with another 26% in Ontario.

Until the outbreak of the coronavirus, Quebec's economy was performing well. The province also wasn't suffering from the economic issues afflicting other provincial economies, including the sharp impact of the oil price collapse in Alberta as well as Saskatchewan and the rising risk of housing market crash in British Columbia and Ontario.

Strong foundation

National Bank possesses solid fundamentals render it well positioned to weather the storm created by the coronavirus pandemic. The bank finished the first quarter with a strong balance sheet and growing assets.

Total assets of \$289 billion were 10% greater than the equivalent period in 2019. National Bank is adequately capitalized, finishing finished the first quarter with a common equity tier one capital ratio of 11.7%.

The bank's high-quality loan portfolio, as evident from its low gross impaired loan ratio of 0.43%, further highlights its financial strength. Notably, for the first quarter 2020, the value of National Bank's gross impaired loans fell by just over 1% compared to the previous quarter, indicating that the bank's credit quality is improving.

National Bank has also employed a range of strategies to protect the quality of its credit portfolio, including insuring 39% of its Canadian mortgages, creating an important backstop should delinquencies rise because of higher unemployment and a weaker economy.

National Bank's uninsured mortgages have a low loan to valuation ratio of roughly 60%, which indicates plenty of room for the bank to renegotiate those mortgages if there is a sharp decline in housing prices or borrowers are struggling to meet their financial obligations.

Each of [those characteristics](#) illustrate that National Bank will survive the current economic conflagration in good shape.

Foolish takeaway

National Bank is very attractively valued and is trading at eight times its 2020 forecast earnings and 1.4 times its book value at writing. That emphasizes why now is the time to buy National Bank.

While waiting for the coronavirus pandemic to end and an economic recovery, investors will be rewarded by its dividend yielding 5.6%. There is every indication that the payment is sustainable because of its low payout ratio of 42%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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