1 TSX Stock That Outperformed Royal Bank of Canada (TSX:RY) and Toronto-Dominion (TSX:TD) in the Last Decade

Description

Canadian banks such as **Royal Bank of Canada** and **Toronto-Dominion Bank** are well known among investors. The two banking giants have created massive wealth over the last few decades via capital appreciation and dividends. However, there is another financial stock on the **TSX** that is much smaller compared to Canada's largest banks but has generated outsized returns ever since going public back in 2011.

Shares of mortgage lender **First National Financial** (TSX:FN) have returned 84% since its IPO. Comparatively, the RY and TD stocks have returned 76.6% and 59.6%, respectively, in this period.

Further, First National Financial stock has a forward dividend yield of 5.7%. The dividend yield for RY stock and TD stock stands at 4.7% and 5.3% respectively. So why has First National Financial outperformed Canada's banking heavyweights? Moreover, let's take a look at whether the stock remains a good pick for long-term investors right now.

First National Financial is a residential lender

First National is Canada's largest non-bank lender and is valued at a market cap of $2.1 billion. It is a leading non-bank mortgage originator and underwriter with a huge domestic presence. The company generates revenue by the value of its Mortgages Under Administration (MUA) that surpassed $100 billion in 2019.

In the last year, the company served over 300,000 borrowers with $111.4 billion in MUA, a record high and 5% up compared to 2018. In 2019, FN sales grew 12% to $1.3 billion driven by growth in MUA and mortgage origination. Its net income also reached a record of $177.2 million, while it paid $144.4 million in dividends.

In the second quarter of 2020, the company's MUA increased 5% to $114.9 billion, up from $109.6 billion at the end of June 2019. Revenue also increased 3% to $344.6 million, up from $335.2 million in the prior-year period while net income soared by an impressive 16.7% to $0.84.

Despite an uncertain macro environment, First National's new mortgage originations in Q2 were up 2% at $6.6 billion in Q2 while total mortgage renewals increased 19% to $2.5 billion.

The company's Executive Vice President Moray Tawse said, "Q2 was a very productive period with results that exceeded our expectations. Within single family, the team drove mortgage originations higher by 15% year over year, which we attribute to a number of factors which fueled growth in First National's market share of the mortgage broker channel."

He added, "On the commercial side, we increased CMHC insured multi-unit origination by 32% to offset a substantial decline in demand for uninsured product. While total commercial originations of $2.1 billion were 17% below last year, we consider this a strong performance under very difficult circumstances."

What's next for First National investors?

Despite the huge market presence of Canada's Big Five banks, FN manages to furnish a decent number in mortgage originations every year.

FN stock is trading at $34.5, which is 23% below its 52-week high. Shares of the financial aristocrat have gained 84.5% since touching multi-year lows in March 2020.

Its payout ratio of 77% makes a dividend cut unlikely, which suggests FN is a top Canadian stock to hold not just for capital gains, but for dividend income as well.

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