



Bank Earnings Preview: National Bank (TSX:NA)

Description

This week, I'd covered the fifth bank in [my bank earnings](#) preview series; **CIBC**. Today, I want to cover the sixth and final bank of the Big Six. **National Bank** ([TSX:NA](#)) is the smallest of the Big Six Canadian banks, but it is one of the [premier banks in the province of Québec](#). Its shares have dropped 1.3% in 2020 as of close on November 12. The stock has increased 3.3% week over week.

How National Bank beat expectations in the third quarter

National Bank released its third quarter 2020 results on August 26. It managed to exceed analyst projections in the face of the COVID-19 pandemic. Net earnings rose to \$602 million or \$1.66 per share compared to a profit of \$608 million or \$1.66 per diluted share in the prior year.

Like its peers, National Bank's earnings were weighed down by higher provisions for credit losses. Provisions rose \$86 million year-over-year to \$143 million. This was done to guard against troubling macroeconomic developments that could lead to problems.

The bank's Wealth Management segment posted net income of \$128 million – up 2% from the prior year. Meanwhile, net earnings in its Capital Markets segment rose 5% year-over-year to \$188 million. Moreover, net income in U.S. Specialty Finance and International grew 26% to \$87 million.

What should investors expect ahead of its final earnings report?

National Bank is set to release its fourth quarter and full-year 2020 results on December 2. Echoing statements from top banking executives, this bank also warned investors of uncertainty in the weeks and months ahead. However, news of a vaccine breakthrough from **Pfizer** has improved sentiment. That is why all bank stocks managed to gather momentum this week.

Québec was one of the best economic stories in the late 2010s. It shed its reputation as something of a lame duck compared to Ontario and outperformed most Canadian provinces. Unfortunately, the COVID-19 pandemic has devastated Québec. Montreal, the economic heart of the province, saw

restrictions return due to rising COVID-19 cases. These red-zone restrictions are expected to remain in place until November 23.

On the other hand, Montreal's real estate has continued to impress. The Québec Professional Association of Real Estate Brokers (QPAREB) released a report earlier this month that showed a 37% increase in sales in October and a strong uptick in prices.

Québec's economy will face an uphill climb going into 2021 as the pandemic rages on. The strong real estate market is a silver lining that should prop up institutions like National Bank.

National Bank: Should you buy today?

National Bank stock last possessed a price-to-earnings ratio of 11 and a price-to-book value of 1.7. This puts the Québec-based bank in favourable value territory. Moreover, it also has an excellent balance sheet.

The bank last declared a quarterly dividend of \$0.71 per share. That represents a 4.1% yield. Value-wise, National Bank is a solid target, but it has a weak dividend yield in comparison to its peers. It ranks in the bottom half of Canadian bank stocks to buy ahead of earnings.

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