



ACT NOW: The Best Dividend Stock for 2021

Description

First National ([TSX:FN](#)) is an originator, underwriter, and servicer of prime single-family residential, multi-unit residential, and commercial mortgages. The company sources [single-family residential mortgages](#) mainly through independent mortgage brokers and sources multi-unit residential and commercial mortgages through in-house mortgage underwriters.

First National funds the mortgages it originates through financial institutions and [a wide range of securitization options](#). Over the past 10 years, First National has experienced significant, smooth, and consistent growth in revenue. An important source of this stable and growing revenue and performance is First National's mortgage servicing business.

The company is very inexpensive with a price-to-earnings ratio of just 15.31, a price-to-book ratio of 5.44, and market capitalization of \$2.53 billion. Total debt stands at \$37.6 billion, and the company has excellent performance metrics with an operating margin of 41.94% and a return on equity of 30.25%.

First National services most mortgages generated through mortgage origination activities and the company is the largest third-party servicer of multi-unit residential and commercial mortgages in Canada. The value of First National's mortgages has grown from approximately \$835 million in 1997 to \$115 billion in 2020.

First National securitizes a portion of the mortgages it originates. The growth of securitized mortgage assets has fueled the increased interest revenue on securitized loans. First National's servicing business and third-party underwriting services business has grown rapidly over the years.

First National has been able to grow revenues due to regional growth in the single-family market and the relaunch of the company's alternative single-family mortgage product. First National's revenues and earnings are generally driven by the value of in-house mortgage origination, the number of mortgages pledged under securitization, and mortgages under administration.

The company's origination activities are funded through a variety of sources, providing it with the opportunity to earn stable and recurring income from servicing mortgages it originates on behalf of institutional investors and others. Substantial value accrues to First National upon the renewal of a

mortgage relative to a new origination, as, generally, no fees are payable to mortgage brokers on the renewal of an existing mortgage.

First National offers a wide range of products in the single-family residential, multi-unit residential and commercial mortgage markets. This permits First National to take advantage of cross-referral opportunities between the various markets, such as added broker convenience and increased product exposure, and to leverage operational synergies, which support the company's variety of products.

First National uses technology to provide for efficient and effective operations both during the origination process and then subsequently in the servicing and administration phase. The company has created a paperless commitment management platform for mortgage brokers and is now ranked among the top three lenders by market share in the broker channel.

Technology initiatives have translated into increased single-family origination volumes and a higher percentage of mortgage commitments First National issues. This investment in business processes and technology, has resulted in lower costs of origination, and provides First National with an operational cost advantage.

At \$43 per share, there could be an incredible buying opportunity for value investors looking for exposure to the mortgage industry.

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