



Can National Bank Grow Into a “Big” Bank?

Description

The pandemic has been hard for most sectors, and banking is no different from the rest. Fortunately, this sector has managed to recover strongly, with many stocks currently trading above pre-pandemic levels. In this recovering sector, smaller banks are coming into focus for many investors. Indeed, investors are increasingly looking at [regional players](#) such as **National Bank of Canada** ([TSX:NA](#)). After all, National Bank has stunned investors with its outperformance and robust momentum of late.

For those bullish on the post-pandemic future, here’s why I think National Bank could be a great play in this environment.

Strong catalysts on the horizon

The economic reopening we’re seeing is a huge catalyst for most stocks. However, given the economic sensitivity of financial stocks, this catalyst is more pronounced.

National Bank is a regional player mainly focused on the Quebec market. This region has been harder hit than others but also provides greater leverage to the economic recovery. Accordingly, investors betting on improved credit quality and increased consumer and corporate lending may want to consider this regional play today.

Higher interest rates are also bullish for National Bank. While we’ve seen bond yields come down somewhat in recent days, this is still a key focal point of many investors. For banks such as NA, rising interest rates and a steepening yield curve actually happen to be bullish. Thus, this is a win-win stock for long-term investors looking for growth at a discount.

I think the Quebec market could be one of the better regional markets to invest in over the next 12 months. This market has improving economic fundamentals and affordable housing prices. Additionally, household debt levels are relatively low in Quebec, providing lending growth upside to players like National Bank.

Can National Bank grow into big-bank status?

Canada's banking oligopoly is pretty engrained as it is. The country's established group of lenders and relatively fixed market share is difficult for smaller lenders to break into.

However, National Bank has shown a lot of growth potential. The company has the potential to outpace its larger peers, particularly in its regional Eastern Canadian markets.

Whether this regional growth can indeed translate into National Bank being a truly national player remains to be seen. Indeed, it's probably too early to jump to such conclusions. However, if National Bank continues to innovate and improve its top- and bottom-line growth metrics, anything is possible.

National Bank has succeeded in being one of the most flexible and creative lenders in Canada. This lender has emerged as a leader in discount brokerage offerings in Canada. During times like these, such lending policies are likely to be viewed positively by patrons. If National Bank can parlay this near-term growth into sustainable long-term growth, anything is possible.

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Date

2025/08/15

Date Created

2021/06/14

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