



Should National Bank Stock Be on Your Buy List?

Description

From the onset of the COVID-19 pandemic, **National Bank of Canada** ([TSX:NA](#)) was focused on the well-being of the bank's employees, clients, and communities. The bank adapted well because of the [strong engagement](#) of National Bank's employees and the profound transformation of the bank over the past few years. The evolution of National Bank's culture into a highly collaborative and agile organization has proven to be a true competitive advantage.

This has played a key role in National Bank's ability to adapt and perform well through unprecedented circumstances.

The bank entered the COVID-19 crisis on a solid footing with a [strong balance sheet](#), strong credit quality, and defensive positioning. National Bank's businesses performed well in an unpredictable environment with revenue growth across all segments and income before provisions for credit losses and income taxes up 8% from 2019. The bank also delivered an industry-leading return on equity of 15%.

Sound diversification

National Bank's performance in fiscal 2020 reflects the resilience of the company's franchise and the sound diversification of the bank's earnings stream. Over the course of the past year, it adopted a proactive and prudent approach to provisioning, in the context of an uncertain and evolving macroeconomic outlook.

At the end of the fiscal year, National Bank's allowances for credit losses totalled over \$1.3 billion, nearly double the level from 2019. While the economic recovery is underway, uncertainty remains in the banking sector.

Based on the information available today and considering National Bank's defensive posture and the performance of the bank's portfolios, the executive management of National Bank appears quite comfortable with the bank's level of reserves and is well-positioned to continue supporting the bank's clients.

Industry-leading total returns

Amidst all the market volatility in 2020, the bank delivered industry-leading total returns to National Bank's shareholders in the one, three, five, ten and twenty-year periods. The bank's excellent performance during the pandemic has confirmed that it made the right strategic choices in terms of capital allocation, business mix and risk management. Overall, National Bank appears very well-positioned to pursue growth across the bank's businesses in 2021.

In personal and commercial banking, National Bank's digital and cultural transformation was key to the bank's ability to offer clients extraordinary support. The commitment and agility of National Bank's teams, the depth of the bank's relationships and the quality of the bank's advice appears to be key differentiators in how it supported the bank's customers during the COVID-19 pandemic.

Open-architecture model

This appears to have translated into significant improvements in both client satisfaction scores and market shares in key product categories. The bank's wealth management segment is the leading franchise in Quebec and firmly established across Canada with a differentiated positioning. Focused on distribution, the bank's open-architecture model responds well to client needs in terms of choice and unbiased advice.

Transaction volumes were high through the beginning of the pandemic, more than offsetting market declines. Further, the bank's business mix and client-facing strategy proved successful in 2020, supported by the strategic and technology choices it has made in the past.

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