



Why Shares of National Bank of Canada Fell Over 2.5% in September

Description

The equity markets experienced their worst month in September 2021, since the bear market of 2020. Several indices lost steam due to a broad range of issues that included rising inflation rates, the ongoing debt crisis surrounding **Evergrande**, a slower-than-expected economic recovery, and the threat of higher interest rates. These factors expectedly impacted several companies, driving shares of **National Bank of Canada** ([TSX:NA](#)) lower by 2.5% last month.

There was no company-specific news that impacted NA stock, which suggests investors should not change their investment thesis, even if markets slump further. Here's why the National Bank of Canada remains a top TSX stock given its strong fundamentals and accelerating earnings growth.

National Bank of Canada is up 38% year to date

In the first nine months of 2021, National Bank of Canada has returned 38% to investors, easily surpassing the broader market. In the last decade, NA stock is up 265% after adjusting for its dividend payouts.

National Bank of Canada's net income in the fiscal third quarter of 2021 stood at \$839 million compared to \$602 million in the year-ago period. Its earnings per share also rose from \$1.66 to \$2.36 in this period. The banking giant attributed its top-line growth to an increase in total revenue across business segments as well as lower provisions for credit losses (or PCLs) on the back of an improved economic outlook. The company's income before PCLs totaled \$1.038 billion, 16% higher than \$894 million in Q3 of 2020.

National Bank of Canada's CEO and president Louis Vachon stated, "The bank's strong performance since the beginning of the fiscal year has continued in the third quarter of 2021. The continued improvement in the economic environment was conducive to growth, as demonstrated by a sustained increase in our revenues."

NA's net income from Personal and Commercial banking rose by almost 50% to \$330 million due to lower PCLs. Its wealth management net income rose 30% year over year to \$165 million while financial

markets net income grew by 21% to \$227 million.

What's next for investors?

National Bank of Canada ended Q3 with a CET1 (common equity tier 1) capital ratio of 12.2%, up from 11.8% at the end of October 2020. Its Basel III leverage ratio stood at 4.4% and was unchanged compared to October 2020.

National Bank of Canada [is forecast to increase](#) its adjusted earnings per share from \$6.06 in fiscal 2020 to \$8.98 in fiscal 2021. So, NA stock is trading at a forward price-to-earnings multiple of 10.83, which is reasonable given its bottom-line growth estimates and a dividend yield of 3%.

National Bank of Canada has derived outsized gains to investors compared to [its larger banking peers](#). But it continues to trade at an attractive valuation. NA's strong fundamentals and strong economic recovery should allow investors to generate inflation-beating returns over the long term.

Analysts covering the stock expect its shares to gain over 7% in the next year. After adjusting for dividends, annual returns will be closer to 10%.

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