



The Top-Performing Bank Stock in 2021 Is Not 1 of the Big 5

Description

Canada's big banks emerged stronger one year after the global pandemic. *Reuters* reported that **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Bank of Nova Scotia**, **Bank of Montreal**, and **Canadian Imperial Bank of Commerce** were relatively unscathed. **National Bank of Canada** ([TSX:NA](#)), the sixth-largest lender, did pretty well, too, according to the news article.

Energy (+70.63%) and real estate (+24.51%) lead the 11 primary sectors regarding sector performance in the stock market. The [financial sector](#), led by the big banks, is in third place with its 24.25% year-to-date gain. All of them outperform the TSX (+17.11%).

However, only National Bank (+43.49%) has a more than 40% return thus far in 2021. If you were to invest in a bank stock in Q4 2021, stick with the top performer. NA trades at \$100.40 per share and pays a decent 2.83% dividend. The [dividend](#) should be rock steady and safe, given the low 34.93% payout ratio.

Record cash hoard

The country's six biggest banks avoided a financial crunch thanks to the federal government's stimulus programs that kept the economy afloat. They set aside enormous amounts for possible loan defaults. The Office of the Superintendent of Financial Institutions (OSFI) also issued a temporary ban on share buybacks and dividend hikes in March 2020.

After the Q2 fiscal 2021 (quarter ended April 30, 2021), the six banks' average Common Equity Tier 1 (CET1) ratio is 12.8%. The ratio is higher than the 9% regulatory floor and 11% industry standard floor. But despite the financial system's resiliency, OSFI Chief Peter Routledge said the restrictions or guardrails must remain. The collective [cash hoard](#) reached \$40.5 billion.

Focus on organic growth

National Bank has \$3.1 billion in excess capital above the 11% floor and \$1.1 billion over the 9%

regulatory floor. Since 2018, the \$33.19 billion bank's primary focus has been organic growth. It posted the highest total deposit growth (9.73%) in fiscal 2018. In fiscal 2020 (year ended October 31, 2020), total revenues increased 7% versus fiscal 2019.

However, National Bank's net income dropped 10% to \$2 billion due to higher provision for credit losses (PCL). Its president and CEO Louis Vachon said, "Our overall performance during the pandemic has confirmed that we have made the right strategic choices in terms of risk management, capital allocation, and business mix."

Vachon added that with four strong pillars, National Bank is well positioned to pursue growth across all its businesses in 2021. Fast forward to Q2 fiscal 2021 (quarter ended April 30, 2021), net income increased 111% to \$801 million versus Q2 fiscal 2020.

In the nine months ended July 31, 2021, National Bank reported a \$2.4 billion net income. The figure is 51% higher than the same period in fiscal 2020. According to Vachon, the improving economic environment was conducive to growth. Management's strategic objective is to deliver solid returns to shareholders.

The sustained increase in National Bank's revenue is reflected in the stock performance.

Foray into a high-growth market

Besides the plan to increase its market share in wealth and lending business segments, National Bank wants to capture opportunities in the high-growth fintech space. It now owns a majority stake (80%) in Flinks, a financial technology firm. The data aggregation startup is the bank's vehicle to build out its presence in the U.S. market.

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