



Is Canada's 6th-Largest Bank a Buy for Yield-Thirsty Investors?

Description

Canada's Big Six banks are set to present their Q4 and full-year fiscal 2021 results. Based on the TSX's earnings calendar, **Bank of Nova Scotia** will report first on November 30, 2021, to be followed by the rest from December 1 to December 3, 2021.

You can expect [stellar financial results](#) again similar to the previous three quarters of the fiscal year. Investors, however, are more excited about the announcement of dividend increases. The Office of the Superintendent of Financial Institutions (OSFI) has [lifted the ban](#) on dividend increases and share buybacks in early this month.

The bets are on as to which bank will announce the largest percentage dividend increase. According to Bloomberg Intelligence analysts, **National Bank of Canada** ([TSX:NA](#)) and **Bank of Montreal** are in a better position to reward investors with higher [dividends](#).

The analysts assume the banks will peg their payout ratios at pre-pandemic levels, or 45% of earnings. If the banks unleash their excess capital to share with investors, the dividend increases could be 18% on average.

Top performer

Let's focus on Canada's sixth-largest bank because of a recent downgrade by an analyst at Barclays. The sell rating is surprising considering that National Bank (+49.74%) outperforms the Big Five and the TSX year to date. John Aiken, the Barclay analyst, cites valuation concerns for the rating cut, not operational and financial performance.

Headwind

Aiken reasons the headwind for the \$35.39 billion bank is the lack of broader diversification. Like its bigger counterparts, National Bank provides commercial banking and financial services. Outside the domestic market, it has the U.S. Specialty Finance and International segment, including ABA Bank, a

subsidiary in Cambodia.

Aiken highlights their small contributions to overall earnings. However, the results from the first three quarters of fiscal 2021 (nine months ended July 31, 2021), shows otherwise. Louis Vachon, National Bank's president and former CEO, said the bank did sustain revenue growth since the beginning of the fiscal year.

The bank's net income increased 50.9% to \$2.4 billion versus the same period in fiscal 2020. Management said the net income growth across all the business segments drove the significant increase in profits. Also, the year-over-year net income growth of its U.S. Specialty Finance and International segment in Q3 fiscal 2021 was 85%. Its revenue growth versus Q3 2020 was 18%.

New tailwind

On August 27, 2021, National Bank announced a \$103 million spending to increase its stake in Flinks. Included in the ownership stake is \$30 million in growth capital for the recent launch in the United States. The investment gives the data sharing startup the financial muscle to build its presence in the American fintech space.

Vachon said about the foray, "Flinks is strategically positioned at a key moment in the evolution of customer experiences." He added that it combines talent and data technology solutions. The startup will capitalize on the opportunities and capture a significant market share in a high-growth marketplace.

Strong buy

Louis Vachon is no longer the CEO; long-time COO Laurent Ferreira took over on November 1, 2021. National Bank is a strong buy if the strategic direction will not change. The bank stock trades at \$104.82 per share and pays a decent 2.71% dividend if you invest today.

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