This Big Six Bank Is Actually a Growth Stock

Description

Decades-high inflation destabilized the investment landscape in 2022, and central banks had to tighten monetary policies to bring it down. The Bank of Canada raised its policy interest rate seven times, and after the December hike, the year-ending rate was 4.25%. Before the rate-hike cycles, the benchmark rate was only 0.25%.

Many thought the high interest rate environment was a boon for lenders and the financial sector. However, rising mortgage costs cooled the housing market and put pressure on stocks. All of the Big Six bank stocks finished the year in negative territory.

The silver lining is that Canadian banks are well established and can overcome a potential downturn in 2023. Their balance sheets are strong, revenues are diversified, and franchises are resilient. However, the top-of-mind choice is the smallest in the group.

Growth stock

National Bank of Canada (TSX:NA) posted a negative return of 1.45% in 2022, but it was the best performance in the banking sector. **Royal Bank of Canada** was second-best (-1.52%), while **Bank of Nova Scotia** lost the most (-22.84%).

This $32.88 billion bank may be the smallest of the Big Six, but it has plenty of upside compared to its larger peers. According to StockBros Research, investors tend to overlook NA, because the market cap is smaller than the giant lenders. The high-quality company is undervalued and could keep growing in the long term. It could even qualify as a value stock.

As of this writing, only **BMO** (+7.41%) outperforms NA (+7.05%) year to date. At $97.66 per share, the dividend yield is 3.97%. The dividends should be safe and sustainable, given the low payout ratio of 37.25%. If management brings the ratio to 50%, the dividend yield could be juicier than its current level.

In the last 20.03 years, NA has delivered a respectable 1,227.66% return, representing a compound annual growth rate (CAGR) of 13.78%. Despite the 4% decline in the fourth quarter (Q4) of fiscal 2022 profit and rising provisions against loan losses, the bank stock raised its dividend by 5%. In the 2021 dividend bonanza of big banks, NA’s dividend increase was 23%.

Solid foundations

NA began the year with solid foundations such as strong capital levels, an industry-leading return on equity (ROE), and prudent credit positioning. The common equity tier-one (CET1) ratio is 12.7%, while return on equity is 18.8%. For the fiscal year 2022 (12 months ended October 31, 2022), the net income rose 8% to $3.38 billion versus fiscal 2021.

Management cited the excellent performance of all business segments for the 7.86% year-over-year revenue growth and the increase in net income. Laurent Ferreira, NA’s president and chief executive officer, said, “We generated superior organic growth across all our business segments, and the operating leverage was positive for the year. We maintain prudent allowances for credit losses and robust capital ratios.”

Top performer

Market analysts said Canadian bank stocks didn’t meet expectations in 2022, because it was a challenging market environment in general. However, because of its superb performance in the last three years and industry-leading ROE, NA is the most attractive investment in the banking sector in 2023.

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