National Bank of Canada (NTIOF)

Updated January 10th, 2021 by Kay Ng

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$19.3B
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/23/20
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	02/01/21
Dividend Yield:	3.8%	**5 Year Price Target**	$70	**Years Of Dividend Growth[1]:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase[1]:**	4.4%

Overview & Current Events

National Bank of Canada (or simply National Bank) is the sixth-largest bank in Canada behind the Big Five banks with Royal Bank of Canada (RY) and Toronto-Dominion Bank (TD) leading at the top. National Bank's historical roots go as far back as 1859. Since 1993, it has maintained or increased its dividend per share every year. All figures in this report are in U.S. dollars unless otherwise specified.

The bank reported its fiscal Q4 and full-year 2020 results on 12/02/2020. Against fiscal Q4 2019, it reported revenue growth of 2% to C$2,049 million, a net income and diluted earnings-per-share ("EPS") decline of 19% to C$492 million and C$1.36, respectively. Return on equity ("ROE") dropped to 13.7% from 18.2%.

For fiscal 2020, National Bank net income and diluted EPS fell 10% to C$2,083 million and CC$5.70, respectively. Its ROE fell to 14.9% from 18.0%. This bank has been more resilient than its bigger Canadian banking peers. It definitely has what it takes to weather this economic downturn, but it could take a few quarters for the macro environment to improve. The bank's capital position remains solid with a Common Equity Tier 1 ratio at 11.8%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.44	$3.97	$3.95	$3.93	$3.51	$3.26	$4.23	$4.51	$4.81	$4.68	***$5.00***	***$6.69***
DPS	$1.35	$1.56	$1.60	$1.65	$1.52	$1.63	$1.77	$1.84	$2.00	$2.11	***$2.19***	***$2.80***
Shares[1]	321	323	326	329	337	338	340	335	334	336	***337***	***346***

From 2011 to 2020, in the Canadian currency, National Bank compounded its EPS by 6.3%, while its five-year EPS growth was roughly 5.2% -- both were above average when compared to its bigger peers. Stellar earnings growth also led to above average dividend growth.

With about 80% revenue exposure to Canada and 55% revenue exposure to Quebec, the bank's growth rate is tied closely to the economic health of Canada and in particular to Quebec. Quebec is the second most populous province in Canada and contributes about 20% of Canada's GDP. National Bank generates 19% of revenue from the United States and Cambodia, which help contribute to higher growth long term.

National Bank has proved to be quite defensive. It's likely to recover it earnings much sooner than its bigger peers. We estimate EPS to grow 7% this year and 6% thereafter. The bank has maintained the same dividend for 5 straight quarters, but it should be able to ultimately increase its dividend at about 5% per year through 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.6	9.4	10.1	11.4	10.2	12.7	11.6	10.2	11.3	10.1	***11.5***	***10.5***
Avg. Yld.	4.0%	4.1%	4.0%	4.0%	4.2%	3.9%	3.6%	4.0%	3.7%	4.5%	***3.8%***	***4.0%***

1. Years of dividend growth in C$; TTM dividend per share over prior TTM dividend per share in C$; Shares in millions.
Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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National Bank has traded at an average price-to-earnings ratio of 10.8 from 2011-2020. Given the outlook of low interest rates and slow economic growth over the next five years, we assume a fair P/E of 10.5. Using our 2021 earnings-per-share estimate, the bank trades at a price-to-earnings ratio of 11.5 – which indicates a moderate premium.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	39%	39%	41%	42%	43%	50%	42%	41%	42%	45%	***44%***	***42%***

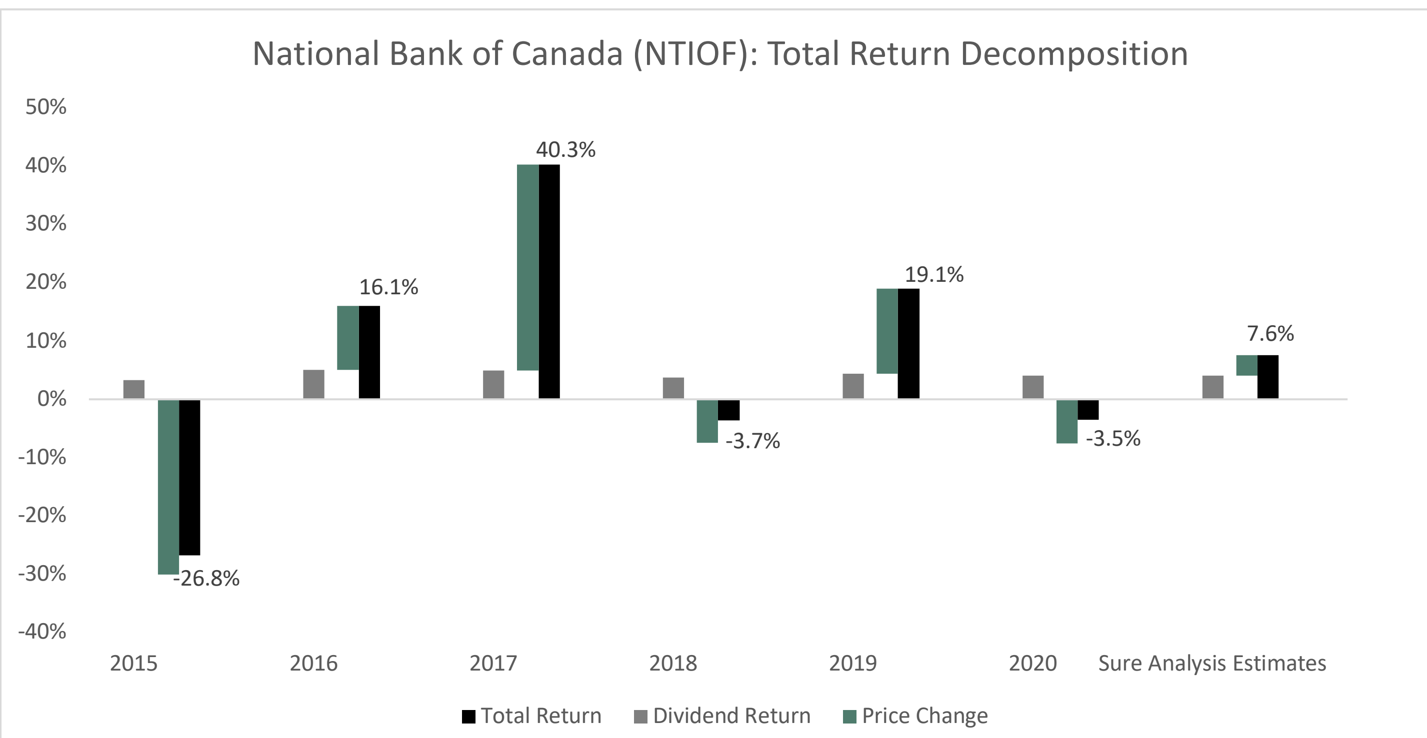
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank included — are well capitalized and well managed.

Like all financial institutions, the bank's balance sheet primarily consists of debt, largely in the form of deposits. The Big Five Canadian banks tend to maintain a payout ratio of about 50%. So, National Bank's payout ratio is reasonable. It should keep paying its dividend as the economy makes a comeback. We believe a dividend growth of about 5% through 2026 is achievable.

Final Thoughts & Recommendation

We forecast defensive National Bank with 7.6% in total returns annually over the next five years, consisting of a forward yield of 3.8%, 6.0% earnings-per-share growth, and a 1.8% headwind from valuation contraction. Interested investors should wait for a meaningful dip in the stock. In the meantime, seek a better income idea from the Sure Dividend coverage universe.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4727	5259	5027	4974	4609	4393	5027	5548	5566	5876
SG&A Exp.	1752	1944	1863	1880	1741	2123	2284	2448	2481	2660
D&A Exp.	129	142	147	153	243	314	268	235	247	333
Net Profit	1240	1554	1421	1348	1248	891	1483	1667	1697	1518
Net Margin	26.2%	29.5%	28.3%	27.1%	27.1%	20.3%	29.5%	30.1%	30.5%	25.8%
Free Cash Flow	1833	1569	415	3492	3697	3899	958	4178	5851	14481
Income Tax	279	324	247	271	189	170	370	423	348	337

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	167838	177939	179561	183438	164159	173086	191617	200055	213759	248923
Cash & Equivalents	2868	3250	3431	7220	5748	6100	6861	9723	10403	21874
Accounts Receivable	2289	3046	2040	1740	1188	1480	1313	1966	1435	1576
Goodwill & Int. Ass.	1599	1841	1872	2027	1775	1902	2064	2078	2140	2138
Total Liabilities	160289	169697	171020	174060	155533	164066	181049	189114	202264	236626
Accounts Payable	3446	4302	4258	3539	2902	2148	2593	2742	2652	2452
Long-Term Debt	3523	3937	3704	2994	2220	1833	845	1357	1517	871
Shareholder's Equity	5753	6459	7143	7576	7241	7187	8340	8785	9363	10081
D/E Ratio	0.54	0.55	0.48	0.35	0.28	0.22	0.09	0.13	0.14	0.07

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.9%	0.8%	0.7%	0.7%	0.5%	0.8%	0.9%	0.8%	0.7%
Return on Equity	22.6%	25.4%	20.9%	18.3%	16.8%	12.3%	19.1%	19.5%	18.7%	15.6%
ROIC	11.2%	13.4%	11.6%	11.0%	10.8%	8.2%	13.3%	14.1%	13.4%	11.6%
Shares Out.	321	323	326	329	337	338	340	335	334	336
Revenue/Share	14.39	16.14	15.37	15.02	13.84	12.92	14.58	16.16	16.49	17.41
FCF/Share	5.58	4.82	1.27	10.55	11.10	11.47	2.78	12.17	17.33	42.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.