# National Bank of Canada (NTIOF)

*Updated August 28th, 2021 by Kay Ng*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $79 | **5 Year CAGR Estimate:** | 8.4% | **Market Cap:** | $26.6B |
| **Fair Value Price:** | $77 | **5 Year Growth Estimate:** | 6.0% | **Ex-Dividend Date:** | 09/24/21 |
| **% Fair Value:** | 102% | **5 Year Valuation Multiple Estimate:** | -0.3% | **Dividend Payment Date:** | 11/01/21 |
| **Dividend Yield:** | 2.8% | **5 Year Price Target** | $104 | **Years Of Dividend Growth:** | 9 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Last Dividend Increase:** | N/A |

## 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 rebounded results for fiscal Q3 2021 on 08/25/2021. Against fiscal Q3 2020, it reported an adjusted net income growth of 39% to C$839 million and adjusted diluted earnings-per-share ("EPS") growth of 42% to C$2.36. The higher earnings primarily reflect lower provisions for credit losses (PCL) across its business segments, helped by improving economic conditions, as we adjust to a world with COVID-19. Adjusted return on equity ("ROE") rose to 21.3% from 17.0% versus a year ago.

This bank has been more resilient than its bigger Canadian banking peers. It certainly has what it takes to weather uncertain economic times during the novel coronavirus pandemic. The fiscal year-to-date results show a more normalized picture. Adjusted net income rose 51% to C$2,401 million, while adjusted EPS climbed 56% to C$6.77. The bank's capital position remains solid with a Common Equity Tier 1 ratio at 12.2%.

Like its bigger Canadian banking peers, National Bank's earnings have rebounded. And we provided a higher fiscal 2021 EPS estimate of US$6.73. The bank's provisions for credit losses (PCL) as a percentage of average loans and acceptances have been relatively low compared to its larger competitors. Therefore, its adjusted earnings hardly felt a dent in fiscal 2020. Specifically, its PCL ratio was 0.53% in fiscal 2020 versus 0.23% in fiscal 2019. Year to date in fiscal 2021, its PCL ratio was 0.03%. Its PCL ratio on impaired loans was 0.49% in fiscal 2020 versus 0.21% in fiscal 2019. Year to date, its PCL ratio on impaired loans was 0.13%. These PCL ratios demonstrate prudent lending practices.

## 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 | ***$6.73*** | ***$9.01*** |
| **DPS** | $1.35 | $1.56 | $1.60 | $1.65 | $1.52 | $1.63 | $1.77 | $1.84 | $2.00 | $2.11 | ***$2.24*** | ***$3.29*** |
| **Shares[1]** | 321 | 323 | 326 | 329 | 337 | 338 | 340 | 335 | 334 | 336 | ***337*** | ***329*** |

From 2011 to 2019, excluding the 2020 pandemic year, National Bank compounded its EPS by 8.2% in CAD$. 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%. These are 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.

[1] Shares in millions.

*Disclosure: Kay Ng owns shares of RY and TD.*

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National Bank has proved to be quite defensive. We estimate EPS to grow 6% through 2026. The bank has maintained the same dividend for 8 straight quarters. As the macro environment continues to improve post-pandemic, especially with the vaccine rollouts, it shouldn't be long before regulators allow the bank (and its peers) to increase their dividends again. Ultimately, we think it's possible that the bank can increase its dividend by at about 8% 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 | ***11.7*** | ***11.5*** |
| **Avg. Yld.** | 4.0% | 4.1% | 4.0% | 4.0% | 4.2% | 3.9% | 3.6% | 4.0% | 3.7% | 4.5% | ***2.8%*** | ***3.2%*** |

National Bank has traded at an average price-to-earnings ratio of 10.8 from 2011-2020. However, the investment community has steadily discovered the bank's quality and its average P/E ratio from 2016-2020 was 11.2. We think that if National Bank continues to maintain its way of doing business and interest rates were to resume growth post pandemic, it could further expand its P/E to 11.5 by 2026. Using our 2021 EPS estimate, the bank trades at a P/E of 11.7 – which indicates a fairly valued stock.

## 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% | ***33%*** | ***37%*** |

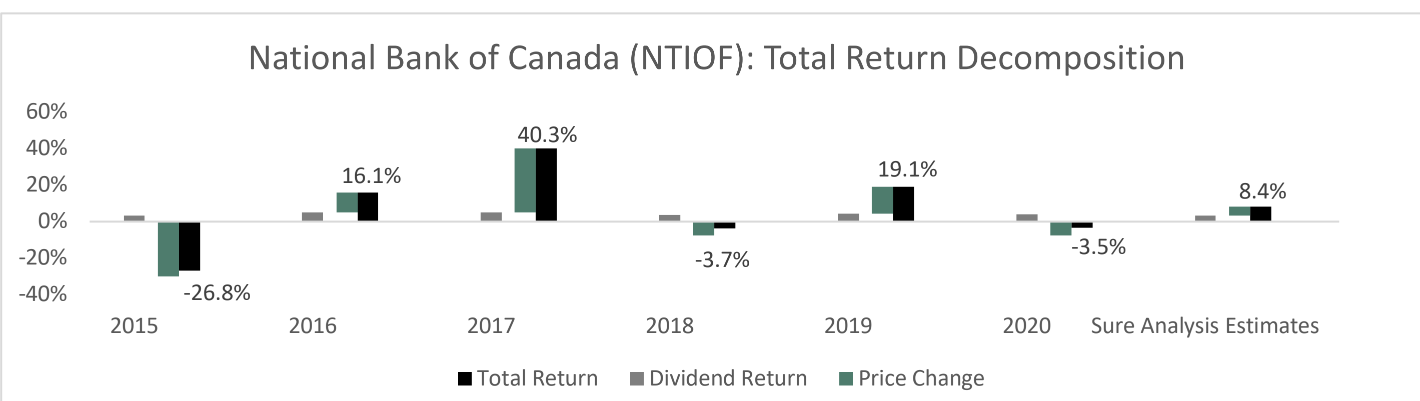
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank included — 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 conservative. It should keep paying its dividend as the economy makes a comeback. We believe a dividend growth of about 8% through 2026 is possible.

## Final Thoughts & Recommendation

We forecast defensive National Bank with 8.4% in total returns annually over the next five years, consisting of a yield of 2.8%, 6.0% earnings-per-share growth, and a 0.3% headwind from valuation contraction. We rate the stock a hold, but conservative investors looking for a low-risk dividend payer can consider buying the stock, especially on meaningful dips.

## Total Return Breakdown by Year

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[1] Shares in millions.

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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 |
| 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 |

## 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.*