National Bank of Canada (NTIOF)

Updated February 26th, 2022 by Kay Ng

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$27B
Fair Value Price:	$83	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/25/22
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	05/01/22
Dividend Yield:	3.4%	**5 Year Price Target**	$111	**Years Of Dividend Growth[1]:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase[1]:**	11.3%

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 results for fiscal Q1 2022 on 02/25/2022. Against fiscal Q1 2021, it reported revenue growth of 11% to C$2,466 million, net income growth of 22% to C$932 million, and adjusted earnings-per-share ("EPS") growth of 23% to C$2.65. This growth was driven by revenue growth across all its business segments, reversals of allowances for credit losses on non-impaired loans given improvements in the macroeconomic outlook and credit conditions, and a reduction in provisions for credit losses on impaired loans. Its Personal and Commercial segment increased net income by 27% to C$317 million year over year (YOY), its Wealth Management segment increased net income by 11% to C$176 million, the Financial Markets segment saw a 20% increase in its net income to C$307 million, while the net income of its U.S. Special Finance and International segment witnessed a jump of 9% to C$136 million. Adjusted return on equity ("ROE") rose to 21.7% from 21.2% a year ago. The bank's capital position remains solid with a Common Equity Tier 1 ratio at 12.7%. We increase our 2022 EPS estimate to US$7.23.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.97	$3.95	$3.93	$3.51	$3.26	$4.23	$4.51	$4.81	$4.68	$7.04	***$7.23***	***$9.68***
DPS	$1.56	$1.60	$1.65	$1.52	$1.63	$1.77	$1.84	$2.00	$2.11	$2.26	***$2.73***	***$4.01***
Shares[1]	323	326	329	337	338	340	335	334	336	342	***344***	***354***

From 2012 to 2021, National Bank compounded its EPS by 9.6% in CAD$. In US$, National Bank compounded its EPS by 6.6%. These are above average when compared to its bigger peers. Stellar earnings growth should also lead to above-average dividend growth. In the period, its dividend growth rate was 7.0% in CAD$ but only 4.2% when translated into US$. 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. After the regulator, Office of the Superintendent of Financial Institutions, loosened its restrictions in November 2021, National Bank stock increased its quarterly dividend by 22.5% -- the largest increase among the Big Six Canadian Banks second only to Bank of Montreal's (BMO) dividend hike. We use a 6% EPS growth rate and 8% dividend growth rate through 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.4	10.1	11.4	10.2	12.7	11.6	10.2	11.3	10.1	11.7	***11.2***	***11.5***
Avg. Yld.	4.1%	4.0%	4.0%	4.2%	3.9%	3.6%	4.0%	3.7%	4.5%	3.3%	***3.4%***	***3.6%***

[1] Years of Dividend Growth based in C$; Last dividend increase based on TTM in C$; 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 10.9 from 2012-2021. However, the investment community has steadily discovered the bank's quality and its average P/E ratio from 2017-2021 was 11.0. 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 2027. Using our 2022 EPS estimate, the bank trades at a P/E of 11.2 – which indicates a fairly valued stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	39%	41%	42%	43%	50%	42%	41%	42%	45%	32%	***38%***	***41%***

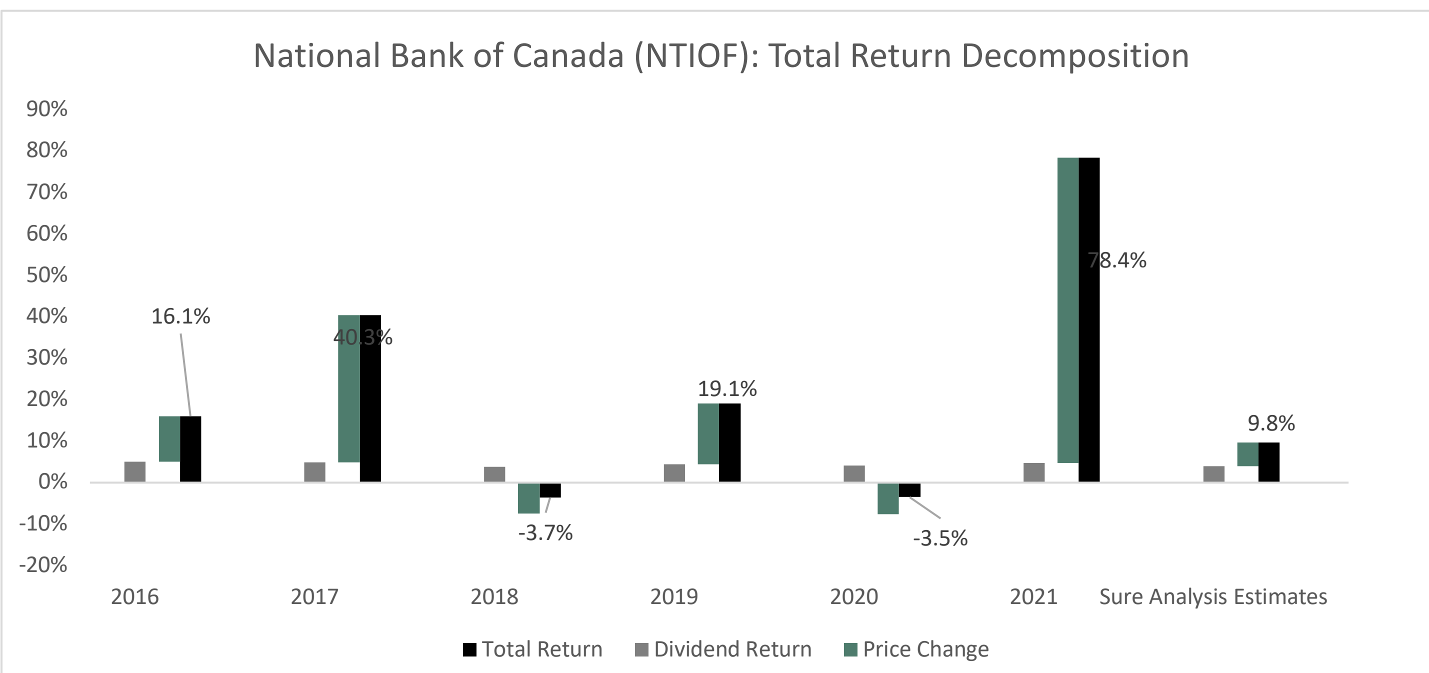
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank included — 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 rate of about 8% through 2027 is possible. Notably, this bank has been more resilient than its bigger Canadian banking peers through the COVID-19 pandemic, which suggests management has been doing a great job in management risk while being focused on returns.

Final Thoughts & Recommendation

We forecast defensive National Bank with 9.8% in total returns annually over the next five years, consisting of a yield of 3.4%, 6.0% earnings-per-share growth, and a 0.6% tailwind from valuation expansion. We rate the stock a buy on dips, especially for conservative investors looking for a low-risk dividend payer.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5017	5039	4989	4591	4540	5022	5545	5493	5876	7077
SG&A Exp.	1864	1851	1880	1741	1630	1803	1917	1898	1982	2406
D&A Exp.	142	147	153	243	314	268	235	247	333	382
Net Profit	1554	1421	1348	1248	891	1483	1667	1697	1518	2525
Net Margin	31.0%	28.2%	27.0%	27.2%	19.6%	29.5%	30.1%	30.9%	25.8%	35.7%
Free Cash Flow	1569	415	3492	3697	3899	958	4178	5851	14481	4408
Income Tax	324	247	271	189	170	370	423	348	337	711

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	177939	179561	183438	164159	173086	191617	200055	213759	248923	287096
Cash & Equivalents	3250	3431	7220	5748	6100	6861	9723	10403	21874	27337
Accounts Receivable	2151	1456	1174	664	982	775	1375	906	865	1359
Goodwill & Int. Ass.	1841	1872	2027	1775	1902	2064	2078	2140	2138	2432
Total Liabilities	169697	171020	174060	155533	164066	181049	189114	202264	236626	271881
Accounts Payable	4302	4258	3539	2902	2148	2593	2742	2652	2452	3031
Long-Term Debt	3937	3704	2994	2220	1833	845	1357	1517	871	55057
Shareholder's Equity	6459	7143	7576	7241	7187	8340	8785	9363	10081	13074
D/E Ratio	26.27	23.94	22.98	21.48	22.83	21.71	21.53	21.60	23.47	20.79

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.8%	0.7%	0.7%	0.5%	0.8%	0.9%	0.8%	0.7%	0.9%
Return on Equity	25.4%	20.9%	18.3%	16.8%	12.3%	19.1%	19.5%	18.7%	15.6%	21.8%
ROIC	13.4%	11.6%	11.0%	10.8%	8.2%	13.3%	14.1%	13.4%	11.6%	6.1%
Shares Out.	323	326	329	337	338	340	335	334	336	342
Revenue/Share	15.40	15.37	15.07	13.78	13.36	14.57	16.15	16.27	17.41	20.76
FCF/Share	4.82	10.55	10.55	11.10	11.47	2.78	12.17	17.33	42.90	12.93

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