National Bank of Canada (NTIOF)

Updated December 2nd, 2022 by Kay Ng

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$24B
Fair Value Price:	$79	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/22/22
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Dividend Payment Date:**	02/01/23
Dividend Yield:	4.0%	**5 Year Price Target**	$105	**Years Of Dividend Growth[1]:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Buy

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 Q4 2022 on 11/30/2022. For the quarter, National Bank reported adjusted net income of C$738 million, down 4.9% versus the prior year's quarter. Adjusted earnings-per-share ("EPS") was down 5.4% to C$2.10. The bank reported solid performance in all its business segments. The press release explained that results were offset by higher provisions for credit losses (PCLs) recorded to reflect a less favorable macroeconomic outlook in this quarter versus in fiscal Q4 2021, in which reversals of allowances for credit losses were recorded to reflect a more favorable macroeconomic outlook. The case of higher PCLs to put aside a reserve in preparation for a weaker economy is similar at the other big banks as well. National Bank's return on equity ("ROE") of 15.3% was still solid, despite down from 18.7% a year ago. The bank's capital position was strong with a Common Equity Tier 1 ratio at 12.7%, up from 12.4% a year ago.

The full fiscal year results provide a bigger picture. Adjusted net income growth of 7.5% to C$3,383 million and adjusted EPS growth of 8.4% to C$9.72, which translated to US$7.09. The bank also raised its quarterly dividend by 5.4% to C$0.97 per share. We initiate our 2023 EPS estimate at US$7.16.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.95	$3.93	$3.51	$3.26	$4.23	$4.51	$4.81	$4.68	$7.04	$7.09	***$7.16***	***$9.58***
DPS	$1.60	$1.65	$1.52	$1.63	$1.77	$1.84	$2.00	$2.11	$2.26	$2.78	***$2.88***	***$3.85***
Shares[1]	326	329	337	338	340	335	334	336	342	337	***339***	***349***

From 2013 to 2022, National Bank compounded its EPS by 9.9% in CAD$. In US$, National Bank compounded its EPS by 6.7%. These are above average when compared to its bigger peers. Stellar earnings growth would also lead to above-average dividend growth. In the period, its dividend growth rate was 8.6% in CAD$ but only 6.3% 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 about 19% of revenue from the United States and Cambodia, which help contribute to higher growth long term. We use a 6% EPS growth rate and 6% dividend growth rate through 2028.

[1] Years of Dividend Growth based in C$; Shares in millions.

Disclosure: Kay Ng owns TD shares.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	11.4	10.2	12.7	11.6	10.2	11.3	10.1	11.7	10.4	***10.0***	***11.0***
Avg. Yld.	4.0%	4.0%	4.2%	3.9%	3.6%	4.0%	3.7%	4.5%	3.3%	3.7%	***4.0%***	***3.7 %***

National Bank has traded at an average price-to-earnings ratio of 11.0 from 2013-2022. We think that's a fair target P/E for the long term. Using our 2023 EPS estimate, the bank trades at a fair valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	42%	43%	50%	42%	41%	42%	45%	32%	39%	***40%***	***40%***

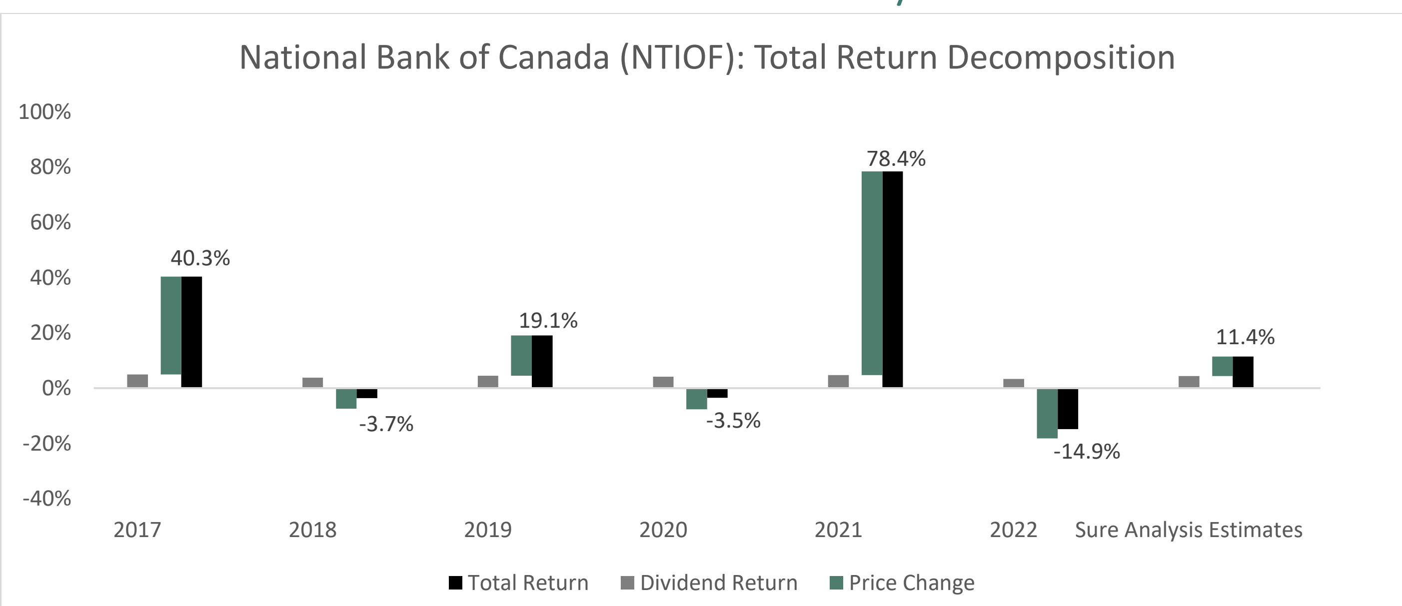
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank included — 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. Compared to the Big Five Canadian banks, National Bank's payout ratio tends to be a tad more conservative. It should keep paying healthy dividends. We believe a dividend growth rate of about 6% through 2028 is possible. The outlook for the bank doesn't look as rosy for next year due to a more negative macroeconomic outlook on the North American economy. However, the bank has navigated through challenging environments such as COVID-19 and the Great Recession before. It has the ability to navigate future recessions as well.

Final Thoughts & Recommendation

We forecast defensive National Bank with 11.4% in total returns annually over the next five years, consisting of a yield of 4.0%, 6.0% earnings-per-share growth, and a 2.0% tailwind from valuation expansion. We rate the stock as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5039	4989	4591	4540	5022	5546	5493	5873	7077	7475
SG&A Exp.	1851	1880	1741	1630	1803	1917	1898	1982	2406	2551
D&A Exp.	147	153	243	314	268	235	247	333	362	374
Net Profit	1421	1348	1248	891	1483	1667	1697	1518	2496	2628
Net Margin	28.2%	27.0%	27.2%	19.6%	29.5%	30.1%	30.9%	25.8%	35.3%	35.2%
Free Cash Flow	415	3492	3697	3899	958	4178	5851	14481	4408	-2013
Income Tax	247	271	189	170	370	423	348	337	701	694

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	179561	183438	164159	173086	191617	200055	213759	248923	286956	296664
Cash & Equivalents	3431	7220	5748	6100	6861	9723	10403	21874	27337	23418
Accounts Receivable	1456	1174	664	982	775	1375	906	865	1359	1395
Goodwill & Int. Ass.	1872	2027	1775	1902	2064	2078	2140	2138	2242	2115
Total Liabilities	171020	174060	155533	164066	181049	189114	202264	236626	271881	280685
Accounts Payable	4258	3539	2902	2148	2593	2742	2652	2452	3031	3215
Long-Term Debt	3704	2994	2220	1833	845	1357	1517	871	34747	33378
Shareholder’s Equity	7143	7576	7241	7187	8340	8785	9363	10081	13741	14765
D/E Ratio	0.48	0.35	0.28	0.22	0.09	0.13	0.14	0.07	2.31	2.09

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.7%	0.7%	0.5%	0.8%	0.9%	0.8%	0.7%	0.9%	0.9%
Return on Equity	20.9%	18.3%	16.8%	12.3%	19.1%	19.5%	18.7%	15.6%	21.0%	18.4%
ROIC	11.6%	11.0%	10.8%	8.2%	13.3%	14.1%	13.4%	11.6%	7.9%	5.3%
Shares Out.	0	331	333	340	345	343	338	338	341	341
Revenue/Share	15.41	15.07	13.78	13.36	14.57	16.16	16.27	17.40	20.76	21.93
FCF/Share	1.27	10.55	11.10	11.47	2.78	12.17	17.33	42.90	12.93	-5.91

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