National Bank of Canada (NTIOF)

Updated December 7th, 2023 by Kay Ng

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	12.4%	**Market Cap:**	$23.4B
Fair Value Price:	$79	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/21/23
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Dividend Payment Date:**	02/01/24
Dividend Yield:	4.5%	**5 Year Price Target**	$106	**Years Of Dividend Growth[1]:**	13
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 in CAD$. All figures in this report are in U.S. dollars unless otherwise specified.

The bank reported results for fiscal Q4 2023 on 12/1/2023. For the quarter, National Bank reported revenue growth of 11% to C$2.6 billion and net income growth of 4% to C$768 million. Although it saw revenue growth in all its business segments, results were partly offset by higher non-interest expenses and higher provisions for credit losses (PCL). Consequently, earnings per share ("EPS") growth ended up being 3% at C$2.14. The adjusted net income of C$867 million, up 17% versus the prior year's quarter. Adjusted EPS was also up 17% at C$2.44. For the quarter, National Bank's adjusted return on equity ("ROE") of 16.3% was still solid, up from 15.3% a year ago.

For fiscal 2023, revenue rose 5% to C$10.2 billion, net income fell 1% to C$4.4 billion, while diluted EPS fell 2% to C$9.38. The PCL was C$397 million (versus C$145 million in fiscal 2022). Adjusted EPS was essentially flat at C$9.60, which translated to US$7.10. The bank reported net income growth of 3% year over year to C$1.3 billion for its Personal and Commercial Banking segment, driven by revenue growth despite higher non-interest expenses and higher PCL. As well, it witnessed net income growth of 2% to C$714 million for its Wealth Management segment. The Financial Markets net income dropped 2% to C$1.1 billion. Its adjusted ROE was 16.8%, down from 18.8% a year ago. The bank's capital position strengthened to a Common Equity Tier 1 ratio of 13.5% versus 12.7% a year ago. The bank also increased its quarterly dividend by 3.9% to C$1.06, equating to an annual payout of C$4.24. We initiate our 2024 EPS estimate at US$7.17.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.93	$3.51	$3.26	$4.23	$4.51	$4.81	$4.68	$7.04	$7.09	$7.10	***$7.17***	***$9.60***
DPS	$1.65	$1.52	$1.63	$1.77	$1.84	$2.00	$2.11	$2.26	$2.78	$2.95	***$3.13***	***$4.19***
Shares[1]	329	337	338	340	335	334	336	342	337	338	***339***	***349***

From 2014 to 2023, National Bank compounded its EPS by 8.8% in CAD$. But in US$, National Bank compounded its EPS by 6.8%. 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 8.7% in CAD$ but only 6.7% 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. To be a bit more conservative, we use a 6% EPS growth rate and 6% dividend growth rate through 2029.

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

Disclosure: Kay Ng owns RY and TD shares.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.4	10.2	12.7	11.6	10.2	11.3	10.1	11.7	10.4	10.1	***9.7***	***11.0***
Avg. Yld.	4.0%	4.2%	3.9%	3.6%	4.0%	3.7%	4.5%	3.3%	3.7%	4.1%	***4.5%***	***4.0%***

National Bank 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 2024 EPS estimate, the bank trades at a slight discount.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	43%	50%	42%	41%	42%	45%	32%	39%	42%	***44%***	***44%***

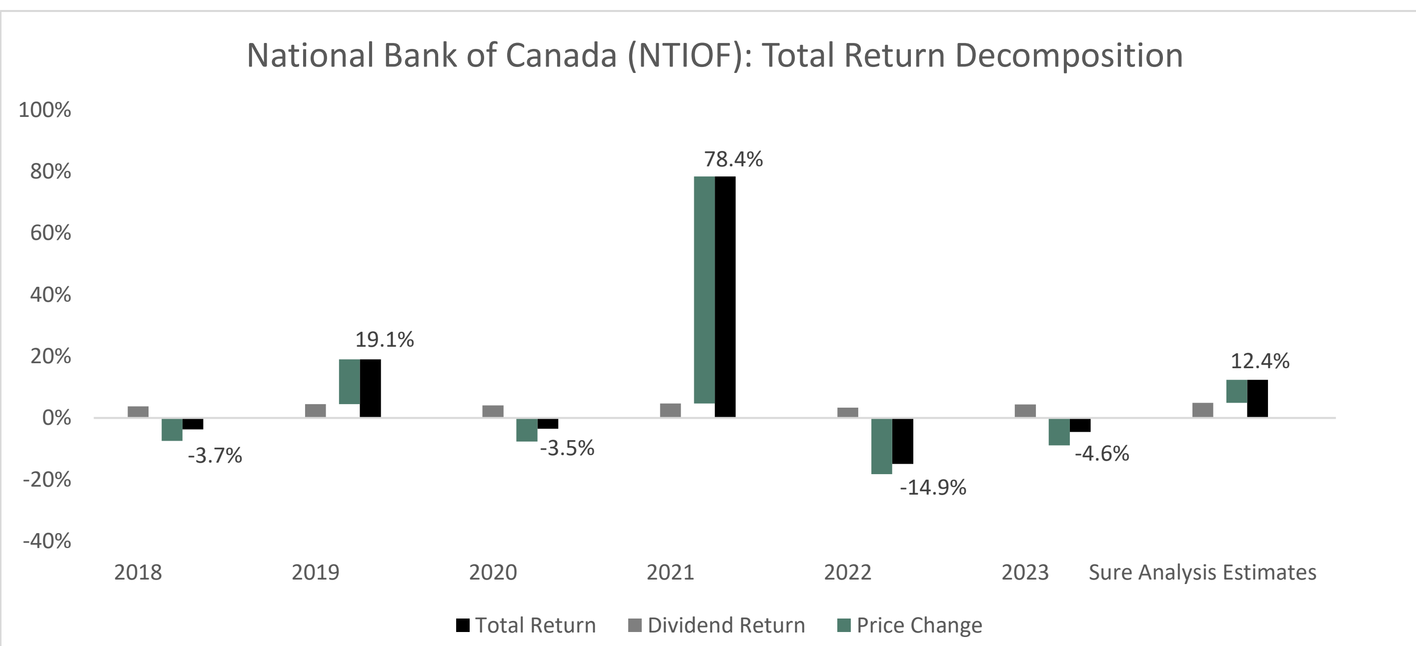
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank included — 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 2029 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, leading to higher provisions for credit losses. 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 resilient National Bank with 12.4% in total returns annually over the next five years, consisting of a yield of 4.5%, 6.0% earnings-per-share growth, and a 2.6% tailwind from valuation expansion. We rate the stock as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4989	4591	4540	5022	5546	5493	5873	7077	7475	7530
SG&A Exp.	1880	1741	1630	1803	1917	1898	1982	2406	2551	2558
D&A Exp.	153	243	314	268	235	247	333	362	374	388
Net Profit	1348	1248	891	1483	1667	1697	1518	2496	2628	2473
Net Margin	27.0%	27.2%	19.6%	29.5%	30.1%	30.9%	25.8%	35.3%	35.2%	
Free Cash Flow	3492	3697	3899	958	4178	5851	14481	4408	-2013	3446
Income Tax	271	189	170	370	423	348	337	701	694	472

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	183438	164159	173086	191617	200055	213759	248923	286956	296664	306290
Cash & Equivalents	7220	5748	6100	6861	9723	10403	21874	27337	23418	25480
Accounts Receivable	1174	664	982	775	1375	906	865	1359	1395	1550
Goodwill & Intangibles	2027	1775	1902	2064	2078	2140	2138	2242	2115	2008
Total Liabilities	174060	155533	164066	181049	189114	202264	236626	271881	280685	289160
Accounts Payable	3539	2902	2148	2593	2742	2652	2452	3031	3215	3723
Long-Term Debt	2994	2220	1833	845	1357	1517	871	34747	33378	38320
Shareholder's Equity	7576	7241	7187	8340	8785	9363	10081	13741	14765	15930
D/E Ratio	0.35	0.28	0.22	0.09	0.13	0.14	0.07	2.31	2.09	2.24

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.7%	0.5%	0.8%	0.9%	0.8%	0.7%	0.9%	0.9%	0.8%
Return on Equity	18.3%	16.8%	12.3%	19.1%	19.5%	18.7%	15.6%	21.0%	18.4%	16.1%
ROIC	11.0%	10.8%	8.2%	13.3%	14.1%	13.4%	11.6%	7.9%	5.3%	4.8%
Shares Out.	331	333	340	345	343	338	338	341	341	341
Revenue/Share	15.07	13.78	13.36	14.57	16.16	16.27	17.40	20.76	21.93	22.10
FCF/Share	10.55	11.10	11.47	2.78	12.17	17.33	42.90	12.93	-5.91	9.82

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