National Bank of Canada (NTIOF)

Updated December 11th, 2024 by Kay Ng

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$32.3B
Fair Value Price:	$85	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	12/30/24
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	02/01/25
Dividend Yield:	3.4%	**5 Year Price Target**	$116	**Years Of Dividend Growth[1]:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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$. Its fiscal 2024 adjusted revenue diversification is as follows: 39% Personal & Commercial Banking, 26% Financial Markets, 23% Wealth Management, and 12% U.S. Specialty Finance & International. All figures in this report are in U.S. dollars unless otherwise specified.

The bank reported strong results for fiscal Q4 2024 on 12/04/2024, reflecting diversified earnings mix, a solid credit profile, and disciplined execution across its businesses. For the quarter, National Bank reported revenue growth of 15% to C$2.9 billion and net income growth of 27% to C$955 million. Earnings per share ("EPS") was C$2.66, an increase of 27%. The adjusted revenue rose 10% to C$3.0 billion and adjusted net income climbed 9.2% to C$928 million, while the adjusted EPS climbed 8% to C$2.58. For the quarter, National Bank's return on equity ("ROE") of 16.4% improved from 14.1% a year ago. The bank's Common Equity Tier 1 ratio was 13.7%, up from 13.5% a year ago. The bank also increased its quarterly dividend by 3.6% (or a year-over-year increase of 7.5%) to C$1.14 per share, equating to an annualized payout of C$4.56 per share.

For fiscal 2024, National Bank's revenue rose 13% to C$11.4 billion and net income increased by 16% to C$3.8 billion. The adjusted revenue rose 10% to C$11.6 billion, while the adjusted net income climbed 10% to C$3.7 billion. The provision for credit losses (PCL) on impaired loans was 0.20%, which was in line with expectations. Ultimately, adjusted EPS rose 9.8% to C$10.39, which translates to US$7.39. We initiate our 2025 EPS estimate at US$7.69.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.51	$3.26	$4.23	$4.51	$4.81	$4.68	$7.04	$7.09	$7.10	$7.39	***$7.69***	***$10.54***
DPS	$1.52	$1.63	$1.77	$1.84	$2.00	$2.11	$2.26	$2.78	$2.95	$3.20	***$3.22***	***$4.41***
Shares[1]	337	338	340	335	334	336	342	337	338	341	***342***	***352***

From 2015 to 2024, National Bank compounded its EPS by 9.2% in CAD$. But in US$, National Bank compounded its EPS by 8.6%. 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 7.6% when translated into US$. Its medium-term objective is to grow adjusted EPS by 5-10% annually, and it targets a payout ratio of 40-50%.

With about 79% revenue exposure to Canada and 49% 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. To be a bit more conservative, we use a 6.5% EPS growth rate and 6.5% dividend growth rate through 2030.

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

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On June 11th 2024 National Bank announced plans to acquire Canadian Western Bank (CBWBF) for about C$5 billion, which would expand its commercial footprint in the provinces of British Columbia, Alberta, and Ontario. Canadian Western Bank has had a history of low write-offs, for example, a 5-year average write-off of 0.14% of average loans.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	10.2	12.7	11.6	10.2	11.3	10.1	11.7	10.4	10.1	11.4	***12.3***	***11.0***
Avg. Yld.	4.2%	3.9%	3.6%	4.0%	3.7%	4.5%	3.3%	3.7%	4.1%	3.9%	***3.4%***	***3.8%***

National Bank traded at an average price-to-earnings ratio of 11.0 from 2015-2024. We think that's a fair target P/E for the long term. Using our 2025 EPS estimate, the bank is slightly pricey. We don't think its yield will stray far away from about 4% for long.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	43%	50%	42%	41%	42%	45%	32%	39%	42%	43%	***42%***	***42%***

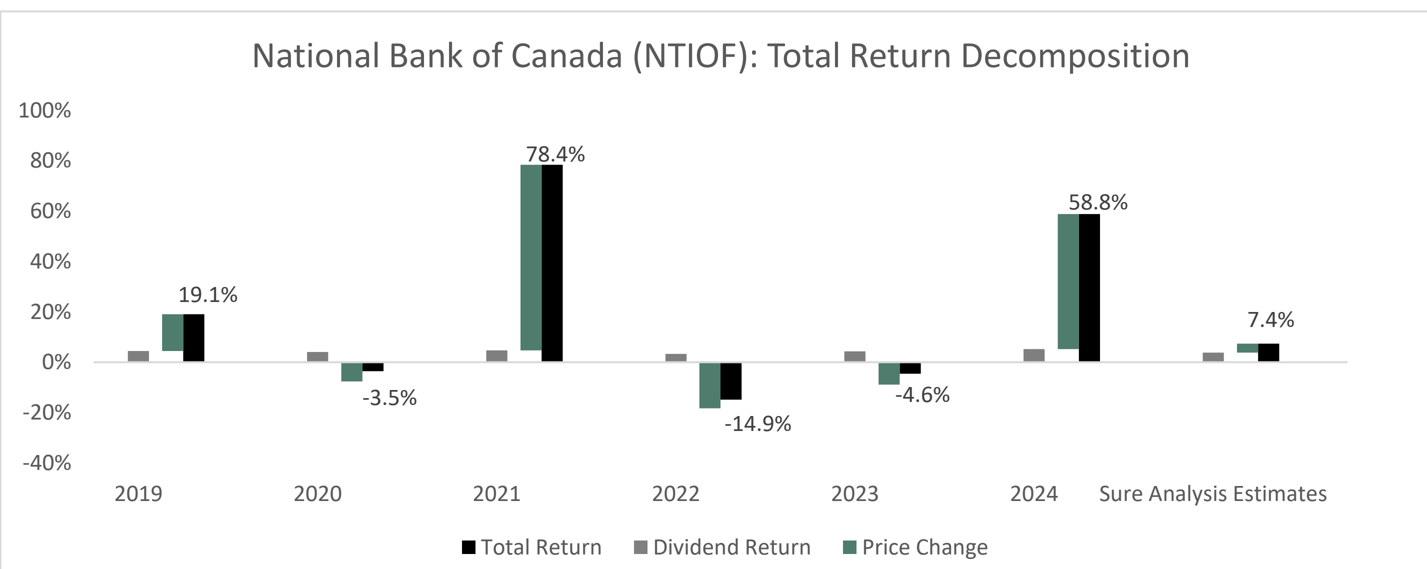
National Bank has a dominant position in Quebec. It also benefits from the effective regulation of the Canadian banking system. The World Economic Forum has ranked Canada's banks as among the soundest in the world for the past decade or so, which highlights the fact that Canadian banks — National Bank 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 6.5% through 2030 is possible. The bank has navigated through challenging environments such as COVID-19 and the Great Recession before, and it has the ability to navigate future recessions as well.

Final Thoughts & Recommendation

We forecast National Bank with 7.4% in total returns annually over the next five years, consisting of a yield of 3.4%, 6.5% earnings-per-share growth, and a 2.3% headwind from valuation compression. We continue to rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	4591	4540	5022	5546	5493	5873	7077	7475	7530	8381
SG&A Exp.	1741	1630	1803	1917	1898	1982	2406	2551	2558	2737
D&A Exp.	243	314	268	235	247	333	362	374	388	378
Net Profit	1248	891	1483	1667	1697	1518	2496	2628	2473	2805
Net Margin	27.2%	19.6%	29.5%	30.1%	30.9%	25.8%	35.3%	35.2%	32.8%	33.5%
Free Cash Flow	3697	3899	958	4178	5851	14481	4408	-2013	3446	2902
Income Tax	189	170	370	423	348	337	701	694	472	706

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	164159	173086	191617	200055	213759	248923	286956	296664	306290	332320
Cash & Equivalents	5748	6100	6861	9723	10403	21874	27337	23418	25480	22680
Accounts Receivable	664	982	775	1375	906	865	1359	1395	1550	2188
Goodwill & Intangibles	1775	1902	2064	2078	2140	2138	2242	2115	2008	1981
Total Liabilities	155533	164066	181049	189114	202264	236626	271881	280685	289160	313950
Accounts Payable	2902	2148	2593	2742	2652	2452	3031	3215	3723	4728
Long-Term Debt	2220	1833	845	1357	1517	871	34747	33378	38320	53430
Shareholder's Equity	7241	7187	8340	8785	9363	10081	13741	14765	15930	17180
D/E Ratio	0.28	0.22	0.09	0.13	0.14	0.07	2.31	2.09	2.24	2.91

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.7%	0.5%	0.8%	0.9%	0.8%	0.7%	0.9%	0.9%	0.8%	0.9%
Return on Equity	16.8%	12.3%	19.1%	19.5%	18.7%	15.6%	21.0%	18.4%	16.1%	15.8%
ROIC	10.8%	8.2%	13.3%	14.1%	13.4%	11.6%	7.9%	5.3%	4.8%	4.4%
Shares Out.	333	340	345	343	338	338	341	341	341	343
Revenue/Share	13.78	13.36	14.57	16.16	16.27	17.40	20.76	21.93	22.10	24.45
FCF/Share	11.10	11.47	2.78	12.17	17.33	42.90	12.93	-5.91	9.82	8.46

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