



## NATIONAL BANK OF CANADA (NA.TO) (NTIOF)

### Business Model

National Bank of Canada is the sixth-largest Canadian bank (and Mike's favorite). The bank offers integrated financial services, primarily in the province of Quebec as well as in the city of Toronto. Operational segments include personal and commercial banking, wealth management, and a financial markets group.

### The Company in a Nutshell

- NA has minimal exposure to the mortgage market, with 70% of its business coming from other segments.
- The bank is pursuing a successful growth by acquisition strategy.
- NA can move faster than the larger banks and is more flexible due to its smaller size.

### Investment Thesis

NA has targeted capital markets and wealth management to support its growth. Private Banking 1859 has become a serious player in that arena. The bank even opened private banking branches in Western Canada to capture additional growth. Since NA is heavily concentrated in Quebec, it concluded deals to provide credit to investment and insurance firms under the Power Corp. (POW). The stock has outperformed the Big 5 for the past decade as it has shown strong results. National Bank has been more flexible and proactive in many growth areas such as capital markets and wealth management. Currently, NA is seeking additional growth vectors by investing in emerging markets such as Cambodia (ABA bank) and the US through Credigy. We wonder if it can achieve more success than BNS on international grounds. It seems like they may have found the right formula to do so! This is one of the rare Canadian stocks having a near-perfect dividend triangle.

## VALUATION

Dividend growth rate 1-10 years: 5%

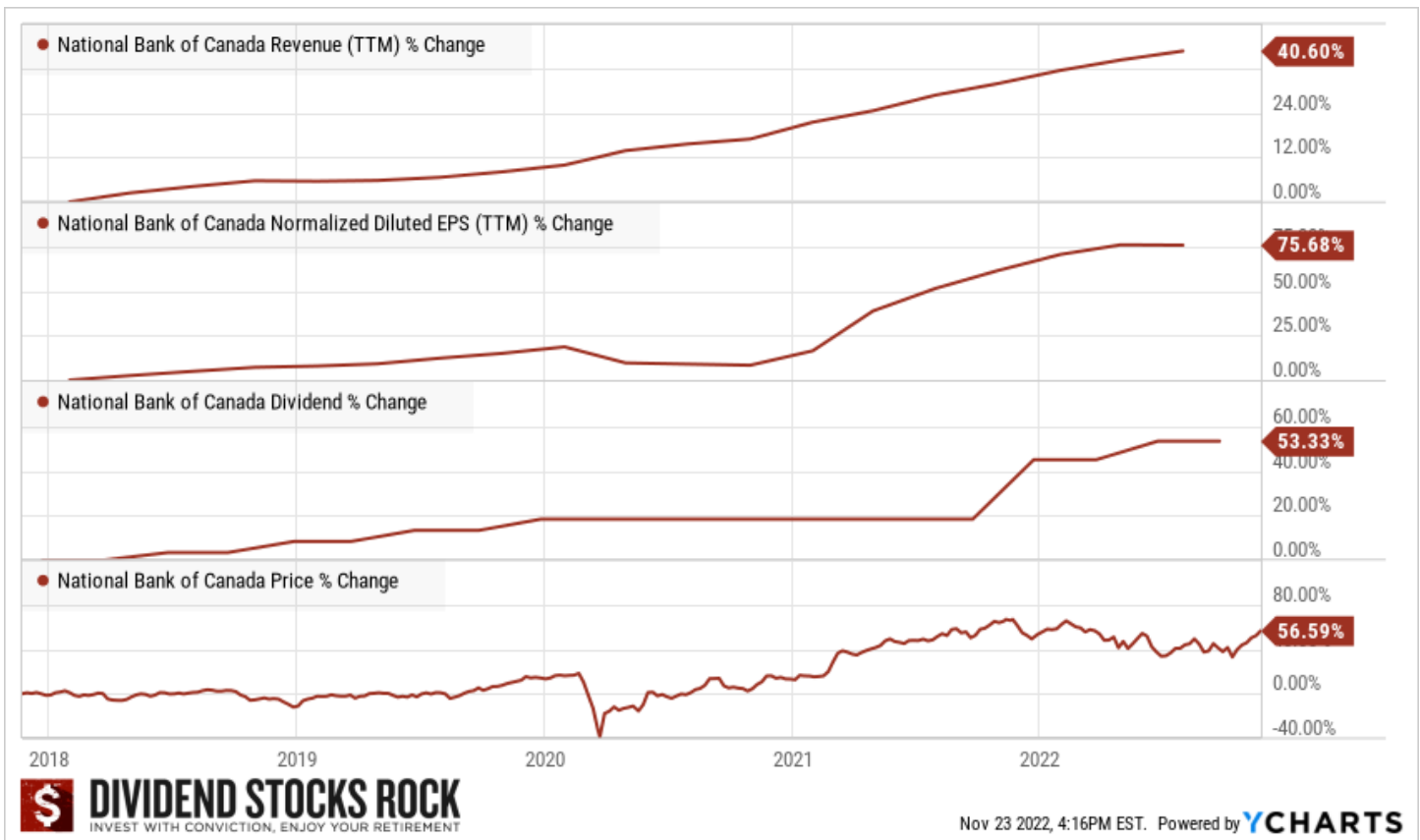
Terminal dividend growth rate: 6%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$135.72	\$102.12	\$81.94
10% Premium	\$124.41	\$93.61	\$75.12
Intrinsic Value	\$113.10	<b>\$85.10</b>	\$68.29
10% Discount	\$101.79	\$76.59	\$61.46
20% Discount	\$90.48	\$68.08	\$54.63



# DSR STOCK CARD

11/20/2022



## Potential Risks

National Bank is still highly dependent on Quebec's economy. As a hyper-regional bank, NA is more vulnerable to local economic events. To date, this has not affected the bank significantly, but we advise to keep track of its provisions for credit losses. Recessions and rising interest rates could also affect the bank's debt portfolio. Capital markets' revenues are also highly volatile. NA could experience a bad quarter if the stock market becomes bearish. Overall, the bank has performed very well, but it usually takes a little more risk to find growth vectors (such as the ABA bank investment and capital markets). So far it has paid off, but it does not mean it will always be this way in the future. Keep in mind that investments like the one in Cambodia are unpredictable and could shift very fast.

## Dividend Growth Perspective

The bank has been one of the most generous over the past 5 years, which is impressive considering the company had to take a break in its increases between 2008 and 2010 due to the financial crisis. The bank also had to pause its dividend growth in 2020-2021 and wait for regulations to be lifted. This finally happened at the end of 2021 and the bank rewarded shareholders' patience with a dividend increase of 23% (to \$0.87/share). The bank then increased it again in 2022 by another 5.7%. National Bank exhibits one of the lowest payout ratios among its peers. An investor can bet on many more dividend increases.