



## Dividend Investors: Should You Buy the Bank of Nova Scotia?

### Description

The media is full of negative stories about Canadian banks in general and the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) in particular.

You know what I'm talking about. Low oil prices are about to rip a hole in the industry's balance sheet wider than Alberta. The banking sector is doomed. Yada, yada, yada.

The fact that Bank of Nova Scotia hiked its dividend earlier this month by 3% received little attention. But as a bull on the stock, I certainly noticed. The payout increase underlines that Bank of Nova Scotia, for all of its short-term struggles, remains a great long term investment.

I'm not thrilled with Bank of Nova Scotia's recent performance—the stock has fallen nearly 15% since August. However, I have no plans to bail on this company.

Here's why.

#### 1. It's cheap

The rout in oil prices has clobbered Bank of Nova Scotia shares. But if you believe in buying wonderful businesses when Mr. Market throws a sale, then there has never been a better time to scoop up this stock.

Today, Bank of Nova Scotia trades at eight times forward earnings, well below the stock's peers and historical average. But given that this company has the least exposure to the turbulent Canadian economy, that discount seems overdone.

In addition to the low multiple, Bank of Nova Scotia's dividend yield now sits at 4.2%. That's appealing, especially compared to the current payouts on bonds. That's also only slightly less than other high-yield sectors like telecoms and utilities.

#### 2. It's diversified

Of course, being cheap isn't always a good thing. Sometimes you get what you pay for. That said, the story that low oil prices will cause rippling, cascading loan losses is a bit overblown.

According to the bank's financial disclosures, loans to the energy industry represented only 3.4% of Bank of Nova Scotia's total lending as of January 31st. Those risks are manageable. The bank's own stress tests show that any defaults would be well within its tolerances.

Admittedly, we could still see some big losses. But there are many levers and drivers of bank earnings. Sometimes you'll find that one thing is negative for one part of the business, but positive for another.

And that's how things have played out so far. All of the volatility in energy markets has translated into big gains for the company's trading business. Bank of Nova Scotia's operations in Asia, the Caribbean, and Latin America also remain strong.

That's why diversification is a big plus. When one unit struggles, the others can pick up the slack.

### **3. It's dependable**

Bank of Nova Scotia has paid a dividend to investors every year since 1832—the second-longest streak of consecutive distributions in Canada.

Think about everything that has happened over that time: wars, recessions, bubbles, financial crises. Yet through it all, this company has never wavered once in its commitment to shareholders.

I don't expect this time to be any different. Given Bank of Nova Scotia's strong balance sheet, diverse business lines, and more than \$7 billion in annual profits, this distribution is one of the safest around. Shareholders should be able to count on those dividend cheques to keep rolling in for decades to come.

Bottom line, where this stock goes next is anyone's guess. But I expect patient Bank of Nova Scotia shareholders will be well rewarded.

## **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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