



## Dividend Investors: 3 Reasons to Buy and Hold the Bank of Nova Scotia

### Description

Can a stock offer safety and a big yield? If you're talking about the **Bank of Nova Scotia** ([TSX:BNS](#)) ([NYSE:BNS](#)), then the answer seems to be yes.

Confusion and conflicting advice reign in the financial world. According to many analysts, though, higher yields generally translate into higher risk.

Bank of Nova Scotia appears to be the exception. Today the banking giant yields a tidy 4.2%. Yet in spite of the stock's tall payout, the company is one of the most reliable dividend payers in the country. Bank of Nova Scotia has paid a distribution to shareholders every year since 1832, the second-longest streak of consecutive dividends in North America.

Of course, these are backward-looking numbers, but there's reason to believe that Bank of Nova Scotia will continue to generate outsized returns. What the stock does in the short term is anybody's guess. But over the long haul, I expect investors will be handsomely rewarded.

Here's why:

#### 1. It's rock solid

I hate dealing with banks, but that's exactly why I love their stocks: account fees, statement fees, inactivity fees. Each year it seems like more of my cash ends up in bank coffers.

Of course, I'm not the only one who's frustrated. You can bet there are thousands of other saps just like me stuck feeding more money into the bankers' pockets. But despite grumbling about fees, most customers are at least satisfied enough to stay with them.

According to Bank of Nova Scotia's own numbers, about 15% of Canadians were prepared to switch banks five years ago. New data, however, shows that figure is now in the mid-single digits, and expected to plunge further.

The ability to retain a loyal customer base is a hallmark of a wonderful business. Firms like Bank of

Nova Scotia that can keep those consumers buying year after year generate strong free cash flows and superior profit margins, putting them in a better position to return money to shareholders through dividends and buybacks.

## **2. It's a dividend machine**

Speaking of dividends...

It's easy to find stocks that will pay a handsome yield for a few quarters. But what about stocks you can count on to provide income for decades and even centuries to come?

If history is any guide, Bank of Nova Scotia is the one stock that you could pass on to your grand kids. As I mentioned above, the company has been mailing out cheques to shareholders since before Canadian Confederation. And after reporting another round of record profits last quarter, management is planning to launch a big share buyback program in coming weeks.

Don't expect this tradition to end anytime soon. Given Bank of Nova Scotia's AA credit rating and more than \$6.9 billion in annual profits, this payout is one of the safest around.

## **3. It's attractively valued**

The recent drop in oil prices has clobbered stocks and even the banking industry is feeling the pain. Since last summer, Bank of Nova Scotia's shares have plunged nearly 15%.

So, is it time to panic? Hardly. If you believe in buying wonderful businesses when Mr. Market throws a sale, then now's a great time to scoop up shares on the cheap.

To value a bank, analysts often use a metric called price-to-book value. This measures what investors are willing to pay for a company's assets less all senior claims such as debt and other liabilities. Today Bank of Nova Scotia's shares trade at about 1.6 times book value, which is below its peers and historical average.

Of course, this stock is no slam dunk. The banking industry in Canada is a mature business and households are up to their eyeballs in debt. That means the company's days of double-digit profit growth are over, at least for the time being.

That caveat aside, management is still finding ways to trim costs and sees big expansion opportunities overseas. Those initiatives should result in higher earnings (and by extension, dividends) in the years ahead.

Bottom line, long-term investors will almost certainly be rewarded with growing revenues, dividends, and a stock price that—while unpredictable in the short term—should gradually rise over time.

## **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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