Is Bank of Nova Scotia a Good Buy for its 4.3% Yield?

Description

The big Canadian banks are known to pay generous dividends that are sustainable. Is the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) a good buy for income today for its 4.3% yield? First, let's take a look at its business.

The business

The Bank of Nova Scotia has strong roots in eastern Ontario, having acquired the Bank of Ottawa almost a century ago. Since then, the bank has evolved to be the third-largest bank in Canada and Canada's leading international bank. It offers financial services in over 55 countries, including South America, Mexico, Asia, and the Caribbean.

To be more customer-focused, the bank is embracing a digital approach to banking. One of its key competitive advantages in this area is Tangerine, which is already Canada's leading digital bank. Bank of Nova Scotia acquired the Canadian operation of ING Direct in 2012 and it was rolled it out as Tangerine in 2014.

Tangerine offers savings accounts, tax-free savings accounts (TFSA), guaranteed investment certificates, registered retirement savings plans, mutual funds, mortgages, and a no-fee chequing account.

Dividend and growth

At under $64 per share, it yields 4.3% with a payout ratio of 47%. For the past two years Bank of Nova Scotia's annualized dividend-growth rate has been over 6%. With earnings expected to grow at a rate of 5-6% per year going forward, Bank of Nova Scotia can continue increasing its dividend by at least 5-6% per year.

Typically, in the past five years Bank of Nova Scotia has been a good buy yield-wise when it reached 4.3% or higher. So, its yield indicates that now is a good time to buy it for the income.

Valuation

Because it is under $64 per share, it is at the low end of its 52-week price range of $60.50-74. In the past 10 years its price-to-earnings ratio (P/E) has oscillated between 11 and 15. At a P/E of 11.2 today, it's on the cheaper end.

Further, its price-to-book ratio is at the lowest it has been in a decade, indicating again that Bank of Nova Scotia shares are on the cheap end.

Tax on the income

The bank pays out eligible dividends that are favourably taxed if held in a non-registered or taxable account. However, if you have room in a TFSA, it would be better to hold it there because everything earned inside, dividends or capital gains, are tax free.

In conclusion

Bank of Nova Scotia is a good long-term investment for income and growth if bought at the low $60 per share level or less, or at a 4.3% yield or higher. The bank has more recently survived the recessions in 2000-01 and 2008-09 and thrived afterwards. Going forward, I believe it will survive any hardships, and will continue paying that dividend and growing it at a pace faster than inflation.

If the bank continues to grow its dividend at a 6% rate per year, the income you receive from the investment would double every 12 years or so.

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