



## Bank of Nova Scotia: 2015 Year-End Review and 2016 Preview

### Description

The big Canadian banks are some of the best businesses investors can buy in the Canadian market. Their dividends are the safest around and typically increase twice a year.

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is the third-largest Canadian bank by market cap. It has a prominent Canadian position and is also a leading financial services provider in Latin America, the Caribbean and Central America, and parts of Asia.

At about \$57, Bank of Nova Scotia yields close to 4.9%. This yield point is historically high for the company and indicates that the stock is undervalued.

### Track record of earnings and dividends

Most importantly, the bank has a long history of stable earnings and dividends. Bank of Nova Scotia has paid dividends since 1832. Because of its earnings strength and growth, it has paid increasing dividends in 43 of the last 45 years.

The bank only froze its dividend in 2009 and 2010 due to the last recession. The ability to maintain the dividend during the recession was reassuring to shareholders as many big banks in the United States ended up slashing theirs.

### Why the price fell 15%

Since Canada is a resource economy and resources have done poorly in the past year, the banks have been dragged down. Bank of Nova Scotia is no exception. It has pulled back about 15% from its 52-week high of \$67 to \$57.

### Past dividend growth

After the two dividend increases this year, the bank's shareholders have seen their income increase by 6%.

Even after the dividend hikes the bank still only paid out 48% of earnings in 2015. So, there's ample room for dividend growth and business growth.

Looking at a wider time frame, from 2010 to 2015 Bank of Nova Scotia increased dividends by a compounded annual growth rate of 7.4%.

### **Business performance: 2015**

In 2015, Bank of Nova Scotia posted the following:

- net income of \$7.2 billion
- adjusted earnings per share (EPS) of \$5.72
- return on equity (ROE) of 14.6%
- revenue growth of 4%

### **Outlook and returns forecast: 2016**

For the new year, Bank of Nova Scotia is anticipating EPS growth of 5-10% and ROE of 14% or higher.

In the last decade Bank of Nova Scotia normally traded at a multiple of 12.3. Today it trades at a multiple of 10. So, the bank is trading at a discount of about 18%.

With a yield of 4.9% and dividends expected to grow at least 6%, investors can expect returns of over 10% from an investment today. However, the undervalued stock should help boost returns by a one-time 20% gain to a fair value of about \$70.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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