



3 Reasons Why Bank of Nova Scotia Is a Strong Buy

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)), the third-largest bank in Canada, has watched its stock widely outperform the overall market in 2016, rallying more than 11% as the S&P/TSX Composite Index has risen just 3%, and I think the rally is just getting started for three primary reasons. Let's take a closer look at these reasons to determine if you agree and if you should take it one step further by establishing a position today.

1. Its strong Q1 earnings could support a continued rally

On the morning of March 1, Bank of Nova Scotia released better-than-expected first-quarter earnings results, and its stock has responded accordingly by rising over 13% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the report compared with the same period in fiscal 2015:

1. Net income increased 5.1% to \$1.81 billion
2. Earnings per share increased 5.9% to \$1.43, surpassing analysts' expectations of \$1.42
3. Total revenue on a taxable equivalent basis increased 9.4% to \$6.51 billion, surpassing analysts' expectations of \$6.27 billion
4. Total assets increased 7.9% to \$919.6 billion
5. Customer loans and acceptances increased 7.9% to \$630.9 billion
6. Deposits increased 7.8% to \$486.9 billion
7. Common shareholders' equity increased 8.5% to \$50.9 billion
8. Assets under administration increased 2.7% to \$452.6 billion
9. Assets under management increased 3% to \$179 billion
10. Book value per share increased 9.2% to \$42.32

2. It's undervalued

At today's levels, Bank of Nova Scotia's stock trades at just 10.6 times fiscal 2016's estimated earnings per share of \$5.87 and only 10 times fiscal 2017's estimated earnings per share of \$6.23, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.7 and the

industry average multiple of 13.1.

With the multiples above and its estimated 7.5% long-term earnings growth rate in mind, I think Bank of Nova Scotia's stock could consistently command a fair multiple of about 12, which would place its shares upwards of \$74 by the conclusion of fiscal 2017, representing upside of more than 18% from today's levels.

3. It has a high and safe dividend with room for growth

Bank of Nova Scotia pays a quarterly dividend of \$0.72 per share, or \$2.88 per share annually, which gives its stock a high and safe yield of about 4.6%.

It is also important to make two notes.

First, Bank of Nova Scotia has raised its annual dividend payment for five consecutive years, and its recent increases, including its 2.9% hike on March 1, has it on pace for 2016 to mark the sixth consecutive year with an increase.

Second, the company has a target dividend-payout range of 40-50% of its net income, so I think its consistent growth will allow its streak of annual increases to continue going forward.

Does Bank of Nova Scotia belong in your portfolio?

Bank of Nova Scotia represents one of the best long-term investment opportunities in the market today, so all Foolish investors should strongly consider making it a core holding.

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

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