



Bank of Nova Scotia: Buy This Forever Stock for Your Grandkids

Description

Many investors consider so-called forever stocks as the Holy Grail of investing.

The rationale is simple. We'd much rather be spending time with family, hitting the links, or doing about a million other things than poring over balance sheets and annual reports. By investing in the kind of company you know is going to deliver through thick and thin, investors can avoid doing a lot of work.

The only issue is selecting these stocks to begin with. What exactly makes a good forever stock, anyway?

Well, they tend to have a few things in common. They have massive moats—competitive advantages that set them apart from potential upstarts. They also have savvy management teams, good growth potential, manageable risk, and, perhaps most importantly, a good forever stock has to trade at a reasonable valuation. After all, multiple compression can turn even the greatest company into a crummy investment.

There are a few stocks that share all these characteristics. Let's take a closer look at one of the best: **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

A true international player

Most of Canada's largest banks have taken the safe route and expanded operations into the United States. The U.S. has similar regulatory requirements as Canada, and it's a relatively fragmented market. These moves make sense.

Bank of Nova Scotia went a different route. Instead of expanding into the United States, the company entered Central and South America, and, to a lesser extent, Asia.

Let's focus on the Latin American exposure. The company has 14 million customers across more than 1,800 branches across nearly 10 nations, 51,000 people work for the bank's international division, and, perhaps most importantly, the division is slated to add some \$2 billion to the company's bottom line in 2016.

One of the biggest reasons to like this Latin American expansion is the inherent growth potential. Both Canada and the U.S. are mature economies that likely won't grow much in the future. The potential to grow the economy of Colombia, Peru, or Mexico is much greater. Many of these countries also have government-debt-to-GDP ratios much lower than in North America or Europe.

Their citizens are also younger and are significantly underbanked compared to us. Only 39% of people aged 15 or older have a bank account in Mexico. Only 38% have one in Colombia. And only 29% are members of a financial institution in Peru. As these countries get wealthier, their citizens will need access to banking products.

Canadian operations

Bank of Nova Scotia is still, at heart, a Canadian bank. A majority of its earnings come from its Canadian retail banking, wealth management, and capital markets divisions.

One particular strength of the company in retail banking is credit cards. It offers several of Canada's most popular cards, including partnering with **Cineplex** to offer the Scene card, which allows cardholders to collect points towards free movies and snacks. More than 6.6 million Canadians have Scene credit or debit cards.

Additionally, the company's subsidiary, Tangerine, recently introduced a credit card that's doing quite well.

Some investors are worried about the company's exposure to the energy market. Not only has it been a somewhat aggressive lender to Canadian oil and gas companies, but Bank of Nova Scotia is also big in Colombia, a nation also heavily dependent on oil. At this point, losses seem manageable with only a slight uptick in loan-loss provisions reported in its most recent quarter.

It's a real no-brainer

Bank of Nova Scotia has good international exposure, a solid brand in Canada, a dividend yield of 4.4%, and expectations of earnings growth of between 5% and 10% annually for the foreseeable future.

The nice thing about banking is the world will always need it. Bank of Nova Scotia is well prepared to do so profitably for decades to come, making it a perfect forever stock.

CATEGORY

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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Author

nelsonpsmith

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