



Dividend Income: 2 Reasons to Buy and Hold Bank of Nova Scotia

Description

If you're looking to own one solid dividend stock for safety and an attractive yield, don't look beyond **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Though I like all of the "Big Six" Canadian banks for their healthy balance sheets and asset quality, Bank of Nova Scotia has one distinctive advantage: it has the biggest foreign presence than any other bank in Canada.

Bank of Nova Scotia has been reaping the benefit of its aggressive growth in the Pacific Alliance, a Latin American trade bloc comprising Mexico, Peru, Chile, and Colombia.

Each of these countries has attractive economic fundamentals and a strong banking and regulatory system. The bloc's young and educated middle class is increasingly looking for financial services.

For dividend investors, here are the two top reasons that make Bank of Nova Scotia a perfect candidate for any income-generating portfolio.

Superior earnings

Bank of Nova Scotia has been consistently surprising investors by producing strong earnings. In the past four quarters, for example, the bank has been able to make profit on the higher side of analysts' forecast.

In the second quarter, the bank's earnings per share, excluding one-off items, rose to \$1.62 compared with \$1.46 a year earlier, helped by strong growth in its international business. Analysts had, on average, forecast earnings of \$1.56 per share.

Some of the bank's peers are under pressure these days as Canada's housing market slows and risk of loan default increases with the rising interest rates. Though the Canadian banks are well positioned to take on that challenge, Bank of Nova Scotia is in a much better situation.

Insured mortgages make up 54% of Bank of Nova Scotia's mortgage portfolio of \$197 billion at the end

of second quarter.

Great dividend story

Finding stocks that pay a market-beating dividend yield isn't difficult, but finding a stock that pays dividend every year since 1832 isn't easy. Bank of Nova Scotia is a stock you can count on for a regular income stream for many years.

The bank not only pays dividend, but it's also a great dividend-growth story. It's hiked its payouts in 43 of the last 45 years — one of the most consistent records for dividend growth among major Canadian corporations.

With a dividend yield of 3.94%, its dividend is more than twice the industry average. I don't see any reason why this situation is going to change anytime soon when the bank has very manageable payout ratio of 42%.

Bottom line

Bank of Nova Scotia has a great economic moat, meaning it's well protected from competition, and its diversified business operations provide a greater depth to produce strong free cash flows and profit margins.

Bank of Nova Scotia stock should be a good addition to your buy-and-hold dividend portfolio for many years to come.

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