



Should Bank of Nova Scotia (TSX:BNS) Be in Your RRSP?

Description

Canadian investors are searching for reliable stocks to add to their self-directed [RRSPs](#), and the big banks often come up as recommendations.

Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#)) ([NYSE:BNS](#)) to see if it deserves to be on your buy list today.

Earnings

Bank of Nova Scotia reported fiscal Q2 2018 net income of \$2.2 billion, representing a 6% increase over the same period last year. Diluted earnings per share came in at \$1.70, up 5%.

Canadian banking operations generated a 5% gain in net income, supported by total loan growth of 7%. Business loans rose 14% compared to Q2 2017.

The international division had a stronger quarter. Net income increased 15%, supported by strong asset and deposit growth in Latin America.

Bank of Nova Scotia has invested heavily to build a large international division, with most of the focus on Mexico, Colombia, Peru, and Chile. These countries form the core of the Pacific Alliance, which is a trade bloc set up to enable the free movement of goods and capital among the member states.

Loan growth in the Pacific Alliance segment was up 15% in the latest quarter.

Acquisitions

Bank of Nova Scotia continues to grow through strategic acquisitions.

In Latin America, the company is working through the US\$2.2 billion purchase of a majority stake in BBVA Chile, which will double Bank of Nova Scotia's market share in the country to 14%. The bank also recently announced a \$130 million deal to take a 51% position in Banco Cencosud in Peru.

In Canada, Bank of Nova Scotia is buying MD Financial Management for \$2.59 billion and just closed

its acquisition of Jarislowsky Fraser for \$950 million. The two deals significantly increase Bank of Nova Scotia's wealth management operations.

Risks

Rising interest rates could force some homeowners to sell their properties when the time comes to renew their mortgages. If a wave of homes hits the market in a short period of time, prices would likely fall, and the banks could incur losses.

Bank of Nova Scotia finished Q2 with \$210 billion in Canadian residential mortgages. Insured loans represent 47% of the portfolio, and the loan-to-value ratio on the uninsured mortgages is 54%. This means house prices would have to fall significantly before the bank takes a material hit.

Overall, higher interest rates tend to be positive for the banks.

Dividends

Bank of Nova Scotia has a strong track record of dividend growth, and that trend should continue. The current payout provides a [yield](#) of 4.25%.

Should you buy?

Bank of Nova Scotia trades at 11.2 times trailing 12-month earnings, which looks pretty cheap compared to its larger peers.

The international operations carry some risk, but they also have significant growth potential and provide a nice hedge against a downturn in the Canadian economy.

If you are looking for a buy-and-hold pick for your RRSP portfolio, Bank of Nova Scotia looks attractive today.

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