Bank of Nova Scotia (TSX:BNS) Is Trading at a 13% Discount

Description

If you're trying to make a last-minute decision between adding either more energy or more financials to your portfolio, you're not alone. With market turbulence dominating the news, investors are seeking stability. This is especially the case for anyone looking at lining their RRSPs and TFSAs.

Of course, any financial advisor will tell you that a strong portfolio will contain both energy and financials, thereby giving you exposure to the two biggest sectors on the TSX. Oil continues to dominate the headlines, and as it looks as though financials are somewhat less volatile at the moment, last-minute investors might want to go with a banking pick. That said, let's take a look at one of the strongest banking stocks out there at the moment, and why it's a solid play.

Crunch the numbers and you'll see why this is a buy

If you're into financials, you really only want stocks that are going to grow in value. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is one such growth stock, with a projected 2.6% annual earnings growth. This follows an encouraging curve that sees the past year's 8.5% rise in earnings. That's a pretty good increase, especially when you compare it to the industry average of 6.3% for the same period.

It beats some of the strongest competition in its sector, too, with a 4.31% forward annual dividend yield. In fact, there are a lot of favourable comparisons you can make between Scotiabank and its competitors – but it's up to you to do your homework. Start with discounts and PE ratios (Scotiabank's PE is an acceptable 11 times) and go from there.

Other financials are dipping, so why is this one special?

At $76.20, shares in Scotiabank are nearing their 52-week low of $75.20. It's taken quite a steep drop given that it was trading at $80.78 less than a month ago. Within the space of three weeks, this stock has dipped from close to its 52-week high ($85.50) to what must surely be a bargain price. In fact, let's put a figure on that: with a potential future cash flow value of around $87, you're looking at a 13% discount that's deeper than some of its competitors while remaining a nicely stable stock.

Could that discount get even deeper? Yes, but not by much. You'd have to go back to 2016 to see a five-year low of $52.27. The message here is that Scotiabank is currently a strong buy. In fact, it's possibly the strongest buy out of the five largest Canadian banks at the moment in terms of discount, health, and dividends.

The bottom line

A forward yield of 4.31% puts Scotiabank right near the top of TSX dividend stocks. While that's not quite in the highest quarter (currently 5.78%), it's worth it for the stability of the stock. It's healthy and fairly well insulated against market volatility with a 36-month beta of 1.31. And it's enjoying a year-on-year growth of 5.2%. You can't really get a much more solid dividend stock on the TSX, and with its discount of 13%, this stock is a very strong choice for your TFSA, your regular income, and your retirement fund.

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