Is Bank of Nova Scotia (TSX:BNS) the Best Dividend Stock Right Now?

Description

While many analysts have downgraded the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock in recent weeks, it's still not easy to build a bearish case for this top Canadian lender.

At a time when Scotiabank is using its strong financial position to expand both locally and abroad, its shares have underperformed. Thus far in 2018, its stock has been the worst performer among the top five Canadian banks. Its shares have fallen about 8% this year, thereby erasing all the stock's gains of the past 12 months.

Let's find out what's driving its share price lower this year.

Acquisition spree

One of the biggest factors weighing on its stock this year is its massive dealing making activity. During the past eight months, the bank has finalized a deal worth $7 billion as it expands both in Canada and abroad.

Those transactions included a $2.9-billion deal for a 68% stake in BBVA Chile, an agreement to acquire MD Financial Management, an Ottawa-based wealth management operation that caters to doctors, for nearly $2.6-billion, and a $435-million deal to acquire Citibank's retail and small- and medium-sized business operations in Colombia.

Some analysts feel that deploying so much capital so fast is risky and increases the execution risk. They also believe that synergies from these transactions will take time to materialize, and in the short run, the lender's stock price will remain depressed.

But I don't see that scenario playing out. Scotiabank has been reaping the benefit of its aggressive growth strategy in the Pacific Alliance, a Latin American trade bloc comprising Mexico, Peru, Chile, and Colombia. I think the latest additions will further cement the bank's presence in the region where a young and educated middle class is increasingly seeking financial services.

The recent numbers also show that Scotiabank's emerging market strategy is working. During the second quarter, strong loan and deposit growth helped push profits from the South American region by 14%. In the next three years, that region is forecast to contribute 30% to the bank's total revenue, up from 23%.

Compelling valuations

For long-term dividend investors, this weakness is a great buying opportunity. After recent pullback, BNS shares now trade at 10.8 times estimated earnings, which is well below its 10-year average valuation and the cheapest when compared to other top lenders in Canada.

Trading at $75.47 at the time of writing with an annual dividend yield of 4.36%, BNS is one of the best dividend stocks to own. The lender has paid a dividend every year since 1832, while it has hiked its payouts in 43 of the last 45 years. I don't see any threat to these dividends when the lender has a strong earnings momentum.

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hanwar