Alert: My Top Canadian Bank Stock Pick for 2019 (and Beyond!)

Description

Countless investors have made a fortune investing in Canada's top banks, and despite current weakness, I see nothing but a bright future for our largest financial institutions.

First off, there are barriers to entry. You can't just decide to open a bank in your garage. Getting the proper regulatory approvals is a long and arduous process. It's much easier to operate in areas where you don't need approval to become a bank, which is often what entrepreneurs do. Besides, who wants to compete against the big banks, anyway?

Although our largest banks are diverse financial institutions, they still get a big chunk of their income from mortgages. Some people are convinced this is a ticking time bomb — because they think cities like Toronto and Vancouver are in the middle of a massive bubble that will end badly — but the fact remains the riskiest mortgages are insured against default. This protects the bank against the worst. The best part? The borrower pays for it, and it's mandated by the federal government (who, more often than not, underwrites this insurance).

Canadian banks then take the profits earned and they use them to pay generous dividends, diversify into different financial services here at home, and, perhaps most importantly, expand outside Canada. Most Canadian banks have moved into the United States, which is a logical place to start. The market is massive, the rules are mostly the same, and their customers speak the same language.

But **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is doing things a little differently, which is why this bank is my top pick in the sector for 2019, 2020, and beyond.

Enter Latin America

While Scotiabank had long dabbled in Latin America, it really made a splash there in 1997 when it acquired Banco Quilmes, an Argentinian bank. Acquisitions followed in Mexico, Colombia, and Uruguay, among other places. Most recently, the company acquired 51% of Banco Cencosud, which offers credit cards and consumer loans in Peru.

These days, Scotiabank has a huge presence in the region. The company's total net income was approximately $8.8 billion in 2018, with $2.8 billion coming from its international banking division. International banking is growing at a much faster pace than the rest of the business, boasting a 16% growth rate versus 2017. Canadian operations only grew 8%.

Latin America will continue to offer better growth potential, too. Most countries in the region have fragmented banking systems, which translates into ample acquisition opportunities. And many of their citizens are rapidly approaching middle class. They will need banking services for the first time.

Scotiabank's international operations also come with much better net interest margins, although those are somewhat offset by higher loan losses. In its most recent quarter, the company's Canadian operations had a 2.45% net interest margin. The international part of the business had 4.52% net interest margins.

Dividend growth

Like many investors, I want to create a passive-income stream that will allow me to live out my golden years without worry. Scotiabank is a perfect core holding for such a portfolio.

The bank gives investors a great combination of an attractive current yield and dividend growth. Shares yield 4.6% today, which is almost double what the same bank pays out for a three-year GIC.

But unlike a GIC, Scotiabank dividends have consistently paid out more each year. A decade ago, the stock paid $1.96 per share in dividends. These days, the payout is $3.40 per share. That represents growth of approximately 6%, which handily beats inflation.

The bottom line

Scotiabank is a dominant player in Canada, a position that delivers steady profits. It's reinvesting these profits into its international operations, which should continue to grow at a nice pace for years. This should fuel additional dividend growth, making the stock a perfect investment for those of us who want additional income each year. It might be a simple thesis, but there's no need to reinvent the wheel here.

Scotiabank has been a successful investment since it opened its doors in 1832. I see no reason the next 186 years will be any different.

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