Revealed: This Dividend Stud Hasn't Missed a Payout Since 1833

Description

Think about everything that's happened in the last 186 years.

Economically, we had the Panics of 1873 and 1907, the Great Depression, the oil shock of the 1970s, huge interest rates in the 1980s, the tech bubble (and subsequent collapse), and then 2008-09 saw the Great Recession.

There were also hundreds of events that impacted the world in more than an economic way. World Wars I and II saw millions of deaths and untold destruction. 9/11 changed the world forever. The United States turned into a true powerhouse, while places like Argentina and Venezuela fell from their status among the richest nations on the planet.

And despite all of these changes, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has paid a dividend for each of the last 186 years. That dividend has grown by leaps and bounds during that time, and, most importantly, it looks like the company is just getting started.

Here's why investors can count on Scotiabank paying a dividend for the next 186 years.

Fantastic Canadian operations

I'm not exaggerating when I say this: the Canadian banking sector is one of the best businesses in the world.

There are all sorts of regulations that act as a deterrent for potential competitors, including some incredibly well-financed U.S. banks. Many of the world's top banks don't even have any operations in Canada, and the ones that do are nothing more than bit players.

Then there's the mortgage business, which is a big driver of earnings. When Scotiabank makes a risky loan to somebody who wants to buy a house, federal government regulations require that borrower to purchase insurance that protects the bank in case of default. Most of the time, borrowers pay backtheir mortgages without much of an issue. And in the odd case where they don't, the bank is protected.

Finally, there's the dominant market share Scotiabank and the other members of the so-called Big Five enjoy. Canada's five largest banks own approximately 85% of the market, which means they set the terms of the industry and others simply follow.

International expansion

Unlike its peers, who are using profits from Canadian operations to expand into the United States, Scotiabank has a unique growth path I've come to really appreciate. It is diversifying into Latin and South America.

It started in 1997 when the company purchased a bank in Argentina. It has followed up that purchase with expansion into Mexico, Peru, Colombia, and Chile, along with lesser purchases like a bank in the Dominican Republic. Altogether these foreign assets have some 1,800 branches and represent approximately one-third of the company's total income.

Scotiabank has two main growth drivers for these international operations. The first is underlying economic growth. Nations like Peru and Colombia are growing at a much faster pace than Canada. This rising tide will lift all boats. And secondly, we must remember that Scotiabank still isn't a dominant player in these markets. So, it has potential to take share away from incumbents.

The security of the payout

Canada's banks have targeted a 50% dividend-payout ratio, including Scotiabank. This ensures the dividend is easily affordable, even in bad years.

2018 saw Scotiabank deliver another year of great results. Earnings came in at $7.11 per share, while dividends were only $3.28 per share. That gives us a payout ratio of 46%, under the 50% target. This indicates the company will raise its dividend at least once in 2019.

Shares currently yield 4.6%, which is a much better payout than a government bond or a GIC. Combine that current yield with dividend growth — which has averaged 6% over the last decade — and it combines to make a powerful investment thesis for income investors.

The bottom line

You can't go wrong buying any of Canada's banks. They've been terrific investments over the years, and I see nothing to change that going forward.

But Scotiabank is my favourite bank today. I like the Canadian operations and think there's still ample potential to get bigger in Latin America. And I'm paid a great dividend while I wait. It doesn't get much better than that.

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