Revealed: This Bank Stock Is the Biggest No-Brainer Buy on the TSX Today!

Description

Sometimes investors need to be reminded that there are no bonus points for choosing more complex situations over easier choices. As long as the return of the simple investment is comparable to the difficult one, it's a no-brainer to go with the easy choice.

Investing in an undervalued blue chip stock comes with other advantages, too. The biggest is knowing your investment is in a great company. This allows an investor to sleep well at night. You'll likely collect a more secure dividend while you wait for a blue chip stock to recover versus having a dodgy payout from some obscure value stock. And most value stocks need to be sold once they hit fair value. A truly great company can be held for decades and continue to deliver.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is my biggest no-brainer buy today, and I've been recently adding to the name despite it already being an oversized position in my portfolio. Here's why I think you should do the same.

An exceptional bank

Everyone knows that Canadian banks are a fantastic business, but many don't do much thinking beyond that. Why are Canada's banks so great, anyway?

First, they dominate the domestic market. The five largest banks in the country have a market share that exceeds 80%. Even Canadians who bank at a credit union or one of the smaller banks inevitably end up using some sort of big bank product, whether it's a credit card or loan.

Then there's mortgage default insurance, an incredibly powerful tool. The borrower pays a fee to a third party — usually CMHC, a branch of the federal government — that guarantees the loan in case they default. The riskiest mortgages are insured against loss and the borrower pays for the privilege. What an amazing business model.

Sure, the Canadian housing market could slow down, which would inevitably hurt the growth from Scotiabank's Canadian operations. This would be nothing but short-term noise, however. Existing mortgages would continue to drip plenty of income to the bottom line, and eventually houses would get cheap enough in major cities to become somewhat affordable and drive growth once again.

Expanding internationally

Canada’s largest banks have taken their domestic profits and used them to buy assets abroad, mostly in the United States.

Scotiabank has taken a different approach. Its international operations are focused in Latin America, primarily in such locations as Mexico, Chile, Peru, and Colombia. This part of the bank accounts for approximately one-third of total earnings with much faster growth than here at home.

In Scotiabank’s most recent quarter, it generated $782 million in profits from its international banking division, versus a profit of $667 million in the same quarter last year. That’s good for a growth rate of 17%.

Growth in Latin America has been partially buoyed by acquisitions, a trend that should continue. But I really like the organic growth potential in the region. Underbanked citizens will need to access more banking products, and higher interest rates translates into better net interest margins.

What a dividend

I can think of precious few stocks that offer Scotiabank’s unique combination of current yield today and potential for dividend growth tomorrow.

Let’s start first with the dividend right now, which stands at $0.87 per share each quarter, which translates into a current yield of 4.9%. The payout ratio remains at approximately 50% of earnings, and investors just got a 6% raise when the company announced its first-quarter results.

Even if international results do slow down, growth in the Canadian banking sector should ensure investors can count on a dependable 6-8% growth in their Scotiabank dividends, albeit with the odd hiccup.

The bottom line

Scotiabank offers it all. It’s a leader in a wonderful business with a moat that ensures it can’t be easily knocked off its pedestal. The company’s international operations are growing like crazy. And to top it off, shares trade at a very reasonable valuation of less than 10 times forward earnings estimates.

Don’t overthink it: just buy Bank of Nova Scotia shares already. You won’t regret it.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/05
Date Created
2019/05/17
Author
nelsonpsmith