Why Bank of Nova Scotia (TSX:BNS) Stock Is a Buy Now!

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is a sleep-well-at-night stock you can count on for safe dividends and attractive long-term returns.

Actually, this month marks Scotiabank's 100th year of being listed on the Toronto Stock Exchange since 1919. Its dividend track record is even more amazing — the bank is one of the oldest dividend-paying stocks in Canada for having paid a dividend every year since 1833!

As Canada's most international bank, other than having a solid footing in Canada and generating about half of its earnings at home, Scotiabank also generates about 21% of its earnings from the Pacific Alliance countries: Mexico, Peru, Chile, and Colombia.

Additionally, it has a meaningful exposure in the United States, generating 7% of earnings from south of the border. Altogether, it results in Scotiabank being a profitable, high-margin business. The bank generates annual revenue of more than $28 billion and net income of more than $8.3 billion per year.

Safe dividend

Scotiabank is only paying out about half of its earnings as dividends, which leaves a big buffer to keep the dividend safe during tough economic times when the payout ratio may temporarily shoot up.

Specifically, based on its current annualized dividend of $3.48 per share, its payout ratio is estimated to be about 48% this year.

A discounted stock

Currently, concerns about slower economic growth has weighed down Scotiabank stock. The bank reports its quarterly earnings today, which may shed light on the bank's outlook.

Over the longer term, though, Scotiabank is expected to grow earnings per share by about 6% per year. Based on Monday's market close price of $70.57 per share, the bank trades at a discounted price-to-earnings ratio below 10 that was last seen in 2016.

Now that the quality bank stock offers a yield of close to 5%, it is an excellent time to buy it for above-average income and long-term returns of about 11% per year. The returns will come from its big dividend and stable growth of about 6% per year over the next three to five years.

Multiple expansions can also add meaningfully to total returns. **Thomson Reuters** has a 12-month mean price target of $79.90 per share on Scotiabank, which indicates the stock is discounted and represents near-term upside potential of 13.2%. Together with the yield of close to 5%, the quality bank can deliver attractive returns of about 18% over the next 12 months.

Foolish takeaway

Scotiabank stock is attractive at a 5% yield. Should the stock drop further on reporting its fiscal Q2 results this morning, long-term investors should view it as a buying opportunity to lock in a big yield for above-average returns with below-average risk.

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Date
2025/09/29
Date Created
2019/05/28
Author
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