The Best Banking Bang for Your Buck

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has been a tough stock to own for Canadians over the last year-and-a-half. The stock was one of the Big Six banks who fell into a bear market last December, and to this day, the name has struggled to sustain a rally back to new heights as some of its peers already have.

With a dividend yield that's now swollen to nearly 5%, I think it's time that long-term income investors gave the name a second look. Scotiabank is a multinational bank that provides investors with instant exposure to the domestic market and a promising outlet to higher-growth emerging markets. As you're probably aware by now, the Canadian banking scene has been anything but peachy of late, and it doesn't look like things are much greener in the Latin American regions.

A forgettable second quarter for Canada's go-to multinational bank

Scotiabank had some pretty weak second-quarter results. There really was no sugarcoating it. I thought the numbers were on par with **CIBC**'s second-quarter disaster.

For the quarter, revenues rose 8%, but before you jump for joy, you should know that the jump was primarily because of recent acquisitions. Adjusted EPS fell short of expectations, and provisions rose to $873 million, up 63% on a year-over-year basis. Although higher provisions and expenses were a common theme in the second quarter for all Canadian banks, Scotiabank was perceived as a particularly risky bet because the bank is in the process of integrating prior acquisitions, which will likely continue driving up costs at arguably the worst possible time.

Moreover, Scotiabank's riskier international business isn't exactly what Canadian investors are seeking now that the entire banking scene has a cloud of uncertainty over it. While it's easy to take a raincheck on Scotiabank after the latest quarter (I wouldn't blame you if you did!), the stock is close to the cheapest it's been in recent memory.

Both the valuation and the dividend yield ought to have value-conscious investors licking their chops, and when you add the potential for higher returns over the next five years from Scotiabank's growing Latin American segment, the risk-reward trade-off definitely appears to be tilted in favour of investors with shares at $70 and change.

The way I see it, the macro environment is turning on Scotiabank at the worst possible time. But don't think that Scotiabank won't get through these tough times, because it always comes storming out of the gate when the banks are great again through the eyes of investors.

At the time of writing, the stock trades at 9.7 times next year's expected earnings, 1.3 times book, and three times sales, all of which are lower than the bank's five-year historical average multiples of 11.8, 1.7m and 3.5, respectively.

I've always encouraged Canadian investors to gain exposure to emerging markets to beef up their long-term returns. Scotiabank is a great way to do this, and now is as good a time as any to pick up the name that I believe is the best bank for your buck this June.

So, lock-in Scotiabank's 4.93% yield and sit on your bum for another couple years. You'll probably be glad you did!

Stay hungry. Stay Foolish.

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Date
2025/10/01
Date Created
2019/06/17

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