



Why You Need This Bargain Banking Stock in Your Portfolio

Description

If you follow Warren Buffett's principles, you'll know that he aims to buy wonderful businesses at bargain prices. That's really the high level of value investing in great businesses and is a low-risk way of investing that suits most investors, because if you do it right, you can't lose money and can only make money over the long run.

Outsized returns

Buffett's long-term investing approach in great businesses have led **Berkshire Hathaway** to compound its book value per share by 18.7% annually from 1965 to 2018, while the stock compounded at 20.5% per year, significantly outperforming the **S&P 500** total returns of 9.7% per year in the period.

Large banking exposure

At the end of the first quarter, Berkshire had US\$66.7 billion (more than 32% of its stock portfolio) in banking stocks. That's a big exposure! Understandably, Buffett bought the stocks when they were bargains. However, it doesn't change the fact that the Oracle of Omaha has strong confidence in the sector. His portfolio wouldn't have such a big exposure to it otherwise.

Investors can mimic Buffett's success by buying wonderful banking stocks when they're trading at bargains. Thankfully, the big Canadian banks are among the most secure financial institutions in the world. One in particular is trading at a meaningful discount.



A wonderful banking stock

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is a fabulous income stock and it appears to be a great bargain today.

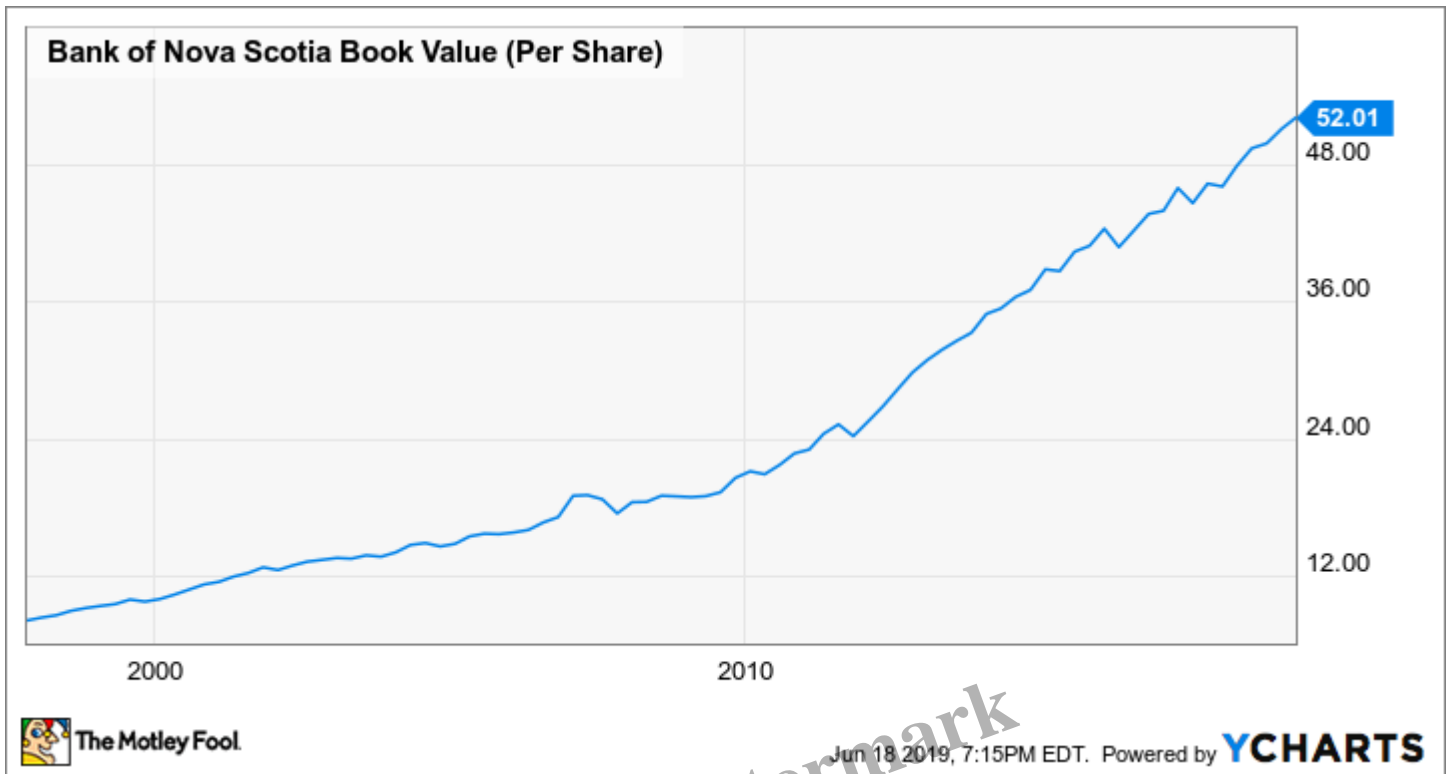
Scotiabank is a wonderful business. Its track record of return on equity (ROE) is excellent. Since 2009, its ROE has been between about 13% and 19%. The ROE being consistently in a teens range indicates that overall, the bank has allocated cash wisely.

Scotiabank has paid dividends for 186 years! In the past 15 years, BNS stock increased its dividend per share by 9.5% per year on average. And in the period, it paid out more than twice the income of the U.S. market. Currently, BNS stock offers a 4.9% yield, 76% greater than the Canadian markets and 173% greater than the U.S. market's.

Going forward, the international bank is estimated to increase earnings by about 5-6% per year. So, its dividend growth should also be in that range seeing that its payout ratio is under 50%, which aligns with the payout ratio of the other big Canadian banks.

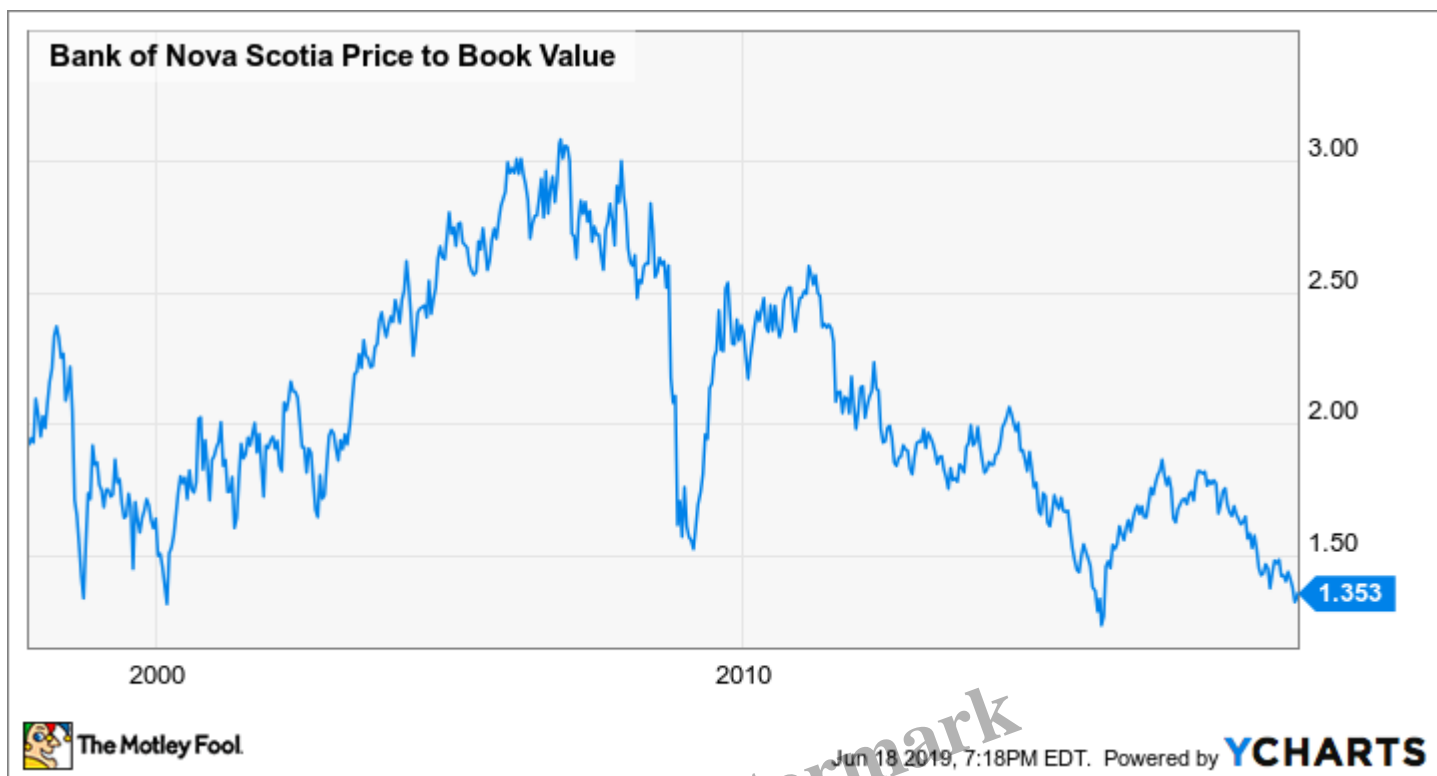
BNS stock trades at a bargain price

The book value per share is a common valuation metric. The graph below shows that Scotiabank's book value per share has increased with dips that look like blips over the long run.



BNS Book Value (Per Share) data by YCharts. Scotiabank's book value per share since before 2000.

In the same period, BNS stock has traded between a price-to-book ratio (P/B) of about 1.3 and three with a midpoint of roughly two. The stock is trading at the low end of the valuation right now, indicating that it's a great bargain.



BNS Price to Book Value data by YCharts. Scotiabank's P/B history since before 2000.

The price-to-earnings ratio (P/E) is another common valuation metric. BNS stock also trades at a discount based on its P/E. It trades at a P/E of about 10 at roughly \$71 per share as of writing, a 16% discount from its normal P/E of about 11.9.

Foolish takeaway

Buying a wonderful banking stock like Scotiabank at a bargain price only means one thing — you'll get greater returns when it reverts to the mean. Assuming it takes the bank five years to revert to the mean, BNS stock can deliver five-year returns of about 13-14% per year. In the meantime, collect a big yield of 4.9% from the bank.

If Berkshire is a good indicator of what to invest in, then, Scotiabank should be a perfect stock to own right now.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

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
4. Stocks for Beginners

Date

2025/08/02

Date Created

2019/06/22

Author

kayng

default watermark

default watermark