



A Top TSX Index Stock Yielding 4.9% With Big Upside Potential

Description

The Canadian market is full of great companies that have generated strong long-term return for investors. Once in a while, they go on sale.

Let's take a look at one stock that might be an interesting pick for your [portfolio](#) right now.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is Canada's third-largest bank, but it certainly isn't small. With a market capitalization of \$87 billion, the bank is a powerhouse in both Canada and Latin America.

The international business should be the most interesting aspect for buy-and-hold investors who are searching for a stock that is low risk but also provides exposure to emerging markets.

Pacific Alliance focus

Bank of Nova Scotia has built a large presence in Mexico, Peru, Chile, and Colombia. The four countries have a combined population of more than 230 million and represent the core members of the Pacific Alliance trade bloc, which enables labour, goods, and capital to move freely among the countries. The stock markets are also linked.

Banking penetration is lower in the region compared to more developed economies. This provides Bank of Nova Scotia with a huge opportunity as the middle class grows.

On the retail side, demand for personal loans and investment products should increase. Commercial opportunities are also significant, as businesses that expand into the other member countries require a variety of cash-management services.

The Latin American operations are already seeing loan and deposit growth that is outpacing Canada

and the international division accounts for roughly 30% of Bank of Nova Scotia's total profits.

Canadian growth

Bank of Nova Scotia is also growing its Canadian business. The bank made two large wealth management acquisitions last year to boost its presence in this segment. The addition of Jarislowsky Fraser and MD Financial could prove to be big wins for Bank of Nova Scotia, but the market appears to be taking a wait-and-see approach, as the stock is down considerably.

Bank of Nova Scotia trades at \$71 per share compared to \$84 in late 2017.

At the time of writing, the stock trades at just 10.6 times trailing earnings. That's a big discount to the 12.2 and 12.4 times investors are paying for its two larger peers.

Risks

A global recession would likely hit Bank of Nova Scotia harder than the other Canadian banks due to the potential volatility in emerging markets. In addition, any major political upheaval in the core Latin American countries would be bad news. That said, Mexico, Colombia, Chile, and Peru have become much more stable in the past decade and likely pose less risk than might be expected.

Dividends

Bank of Nova Scotia has a strong track record of dividend growth, and that should continue. The current payout provides a [yield](#) of 4.9%.

Should you buy?

Long-term investors have done well with this stock. A \$10,000 investment in Bank of Nova Scotia 20 years ago would be worth more than \$85,000 today with the dividends reinvested.

If you have some cash sitting on the sidelines, Bank of Nova Scotia should be a good buy. The stock appears oversold right now, and you get paid well to wait for sentiment to improve.

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