Bank of Nova Scotia (TSX:BNS): Should You Buy This Stock for the 5% Yield?

Description

Once in a while, the market gives investors an opportunity to buy quality stocks at cheap prices while picking up solid and attractive dividend yields.

Let's take a look at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see if it deserves to be on your buy list today.

Opportunity

Investors often sidestep Bank of Nova Scotia in favour of its larger Canadian peers, but the stock probably deserves more respect.

With a market capitalization of $85 billion, Bank of Nova Scotia is certainly not a lightweight, and the company's aggressive approach to building its Latin American presence could prove to be very profitable for investors.

The bank has spent billions of dollars to acquire banks and credit card portfolios in Pacific Alliance members Mexico, Chile, Colombia, and Peru. Last year, for example, Bank of Nova Scotia spent US$2.2 billion to acquire a majority position in BBVA Chile. The move doubled its market share in the country to about 14%.

The four markets are home to more than 230 million people.

As the middle class grows and businesses take advantage of trade opportunities, Bank of Nova Scotia should benefit from rising demand for loans, investment products, and cash management services. The Latin American division is already seeing loan and deposit growth that outpaces Canada. Profits coming from the international division account for about 30% of total net income.

At home, Bank of Nova Scotia bought two wealth management companies last year in a bid to boost its presence in that sector. Several of the banks have acquired independent private banking and wealth management firms in recent years. The segment can be lucrative and provides the bank with opportunities to expand the banking relationship with the clients.

Risks

The Pacific Alliance countries are emerging markets and come with challenges. Mexico’s new president is making international investors nervous and the reliance of Peru, Chile, and Colombia on mining and oil production can cause problems when commodity prices tank.

On the growth side, aggressive acquisitions are a good way to build the business quickly, but integration of the new assets has to go well, and the price paid must allow the company to generate decent returns on the investment. Adding three large companies to the fold in a short period of time might be viewed as a bit ambitious.

Should you buy?

At the time of writing, Bank of Nova Scotia trades at close to $68 per share. This puts the price-to-earnings multiple at roughly 10 times trailing 12-month earnings, which appears cheap in the current environment of strong employment in Canada and steady growth in the international operations.

Bank of Nova Scotia generates solid profits, and the dividend should continue to grow. Investors who buy today can pick up a solid 5.1% yield and simply wait for market sentiment to improve.

If you have some cash on the sidelines and are willing to ride out ongoing volatility, Bank of Nova Scotia is starting to look attractive for a dividend-focused portfolio.

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