



Is Bank of Nova Scotia (TSX:BNS) Stock Your Top Bank Pick for 2020?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) has underperformed its larger Canadian peers over the past two years.

Let's take a look at the current situation for the bank to determine if it might be a contrarian pick for your [portfolio](#) heading into next year.

Emerging market exposure

Canada's third-largest bank trades at less than \$70 at writing compared to \$84 in late 2017.

The downward trend is partly due to global recession fears, as investors worry that Bank of Nova Scotia's large international operations could take a hit if the battle between the U.S. and China isn't resolved in a timely manner.

What's the risk?

Bank of Nova Scotia has spent billions of dollars in recent years to build a significant presence in Latin America, with a focus on Chile, Peru, Colombia, and Mexico.

The four countries form the core of the Pacific Alliance trade bloc. Capital, labour, and goods can move freely among the member countries and they have linked their stock markets.

All the news covering economic chaos in Venezuela and Argentina might have some investors worried that the trouble could potentially spread across the region.

That shouldn't be the case, although Mexico's economy is showing signs of stalling out, due to policies put in place by the new president.

A reliance on copper and oil markets makes the other three countries susceptible to negative movements in commodity prices. Any meltdown in the global economy would be negative for the

Pacific Alliance members.

Despite the uncertainties, Bank of Nova Scotia is doing well in these markets. Deposit and loan growth are strong and the international group is very profitable.

Short-term risks should be offset by the big picture potential. The Pacific Alliance countries are home to more than 230 million people and as the middle-class expands, Bank of Nova Scotia should benefit from increased demand for its products and services.

Takeovers

Bank of Nova Scotia is working through the integration of three large takeovers it made in the past year and the costs connected to that process have impacted results, which should reverse in the coming quarters.

Dividends

Bank of Nova Scotia has a strong track record of dividend growth. The board raised the quarterly payout from \$0.85 to \$0.87 per share earlier this year and investors should see another increase before the end of 2019.

At the current price, the stock offers an attractive 5% [yield](#).

Should Bank of Nova Scotia be a top pick?

Heading into 2020 the stock could catch a new tailwind.

Why?

Economic doomsayers might be getting ahead of themselves and the benefits from the acquisitions should start to boost earnings in the next few quarters.

At the same time, lower mortgage rates should jump-start the Canadian housing market after rising interest rates cooled the sector in 2018.

Additional volatility could be on the way in the near term, but the stock appears oversold right now at just 10 times trailing earnings and could see some nice upside over the next 12-18 months.

It's a bit of a contrarian play, but investors might want to put Bank of Nova Scotia on their 2020 buy list. History suggests the bet will pay off down the road and you get paid well to wait for the recovery.

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Author

aswalker

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