TFSA Wealth: Is This a Good Time to Buy Bank of Nova Scotia (TSX:BNS) Stock?

Description

Canadian investors are searching for top-quality stocks to add to their self-directed TFSA portfolios.

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The country's bank stocks are regularly recommended as being strong anchor picks for a diversified fund, but opinions differ on which bank should be the top pick.

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.

Earnings

Scotiabank just reported results for fiscal year 2019, which ended October 31. The bank generated adjusted net income of $9.4 billion, representing a 3% increase over 2018. Adjusted revenue rose 8% and adjusted expenses jumped 10%.

The hike in costs is partly due to spending associated with the acquisition and integration of two wealth management companies in Canada and a major purchase in Chile. In addition, spending on technology increased as the bank invests to improve its digital banking operations.

Canadian banking adjusted net income rose 2%, while the international businesses saw a 13% rise.

Scotiabank has invested billions of dollars on foreign acquisitions in recent years, with the bulk of the action occurring in Mexico, Peru, Chile, and Colombia. The four countries might initially appear to be odd choices for a Canadian bank to target, especially given the volatile political and economic histories.

However, Mexico is part of NAFTA and Canadian oil and mining companies have extensive operations in all of the countries. In addition, the four form the core of the Pacific Alliance trade bloc that is home to 225 million people and represents the ninth largest economy in the world.

The attraction lies in a vast market that allows the fee movement of goods, services, and capital among the member countries. Banking penetration is below 50%.

Scotiabank's international banking operations generated adjusted net income of $3.2 billion in fiscal 2019. That represents 34% of total profits.

Risk

Recent political turmoil and protests in Chile, Peru, and Colombia are a good reminder that these countries can still be volatile. They depend heavily on natural resources for revenue and changes in commodity markets can have a huge impact on their economies.

With the international operations representing a third of earnings, any major downturn in those countries could have a meaningful impact on Scotiabank's results.

At home, the Canadian housing market is often flagged as a potential threat to the banks due to high prices and the fact that Canadians are carrying record levels of debt as a percentage of disposable income.

Scotiabank finished fiscal 2019 with $227 billion in Canadian residential mortgage exposure. The uninsured portion represents 61% of the loans and the loan-to-value ratio on that segment is 55%, so things would have to get pretty bad before the bank takes a meaningful hit.

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The downward movement in bond yields over the past year has allowed the banks to drop mortgage rates. This has revived the housing market while giving existing homeowners a chance to renew at better rates. The Bank of Canada has also halted interest-rate hikes, which helps borrowers with variable rate loans.

Overall, the risk of a housing meltdown is likely lower than it was 12 to 18 months ago.

Scotiabank has a strong capital position with a common equity Tier 1 ratio of 11.1%, so it should be well positioned to ride out some tough economic times.

Should you buy?

Investors with a buy-and-hold strategy might want to add the stock to their portfolios.

The dividend provides a solid 4.8% yield and shareholders should see the payout grow in line with expected gains in earnings per share of around 5% per year.

The international business is performing well and offers strong long-term growth prospects.

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