RRSP Investors: Is This Canada's Top Bank Stock for the Next Decade?

Description

Canadian investors are starting to plan their RRSP allocations for the next year and that normally involves sifting through a variety of stocks that might be good buys.

The Canadian banks are often viewed as top picks for their reliable dividends and long track record of share price appreciation.

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 right now for a self-directed RRSP portfolio.

New pillar

Scotiabank recently set up a new division, placing its wealth management operations into a separate group. The decision comes after the bank made two large wealth management acquisitions in the past two years.

Scotiabank bought Jarislowsky Fraser for $950 million in May 2018. The independent investment firm had $40 billion in assets under management that included the portfolios of pensions, foundations, endowments, corporations, and individuals. The firm is known for its low-risk approach and conservative investing principles.

In October 2018, Scotiabank closed its $2.6 billion purchase of MD Financial Management, the leading provider of financial services to Canadian physicians and their families. The deal added $49 billion in assets under management. Scotiabank issued $1.5 billion in new stock to help cover the acquisition.

Jarislowsky Fraser and MD Financial are now part of the new Global Wealth Management business line that went live November 1, 2019. The move reflects Scotiabank's strategy to drive stronger growth in the wealth management sector.

A flurry of deals by the Canadian banks in recent years, both in Canada and the U.S. shows the value they put on wealth management opportunities. Profits can be substantial and driving growth through the existing personal and commercial banking operations in Canada is becoming more challenging.

Latin America

Scotiabank also sees potential in Latin America. The company has invested heavily in Mexico, Peru, Chile, and Colombia in recent years to build a substantial business in the region. The four countries form the Pacific Alliance trade bloc, which was set up to encourage the free movement of goods, capital, and labour among the members.

The combined market is home to more than 225 million people and banking penetration in the population is less than 50%. This presents huge growth opportunities for Scotiabank as the middle class expands. The commercial potential is also significant as companies extend their reach into the other countries.

Scotiabank continues to scale up in the region. It spent $2.8 billion in July 2018 to acquire a majority interest in BBVA Chile, effectively doubling Scotiabank's market share in the country to 14% of total loans, making it one Chile's largest private banks.

The international group is growing at a faster pace than Scotiabank's domestic operations and contributed more than 32% of total adjusted net income in fiscal Q4 2019.

Should you buy?

Scotiabank has a strong track record of dividend growth and that trend should continue. The current payout provides a yield of 4.8% and the stock trades at a reasonable 11 times trailing 12-month earnings.

The push to build the wealth management business, along with ongoing growth in Latin America, should be positive for the bank in the coming years.

If you are searching for a buy-and-hold pick for your RRSP, Scotiabank deserves to be on your radar.

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