Income Investors: A Top Canadian Dividend Stock Yielding 5% for Your TFSA

Description

The TFSA is a handy tool for investors who want to generate steady income from reliable dividend stocks and not have to pay any tax to the Canada Revenue Agency on the distributions.

The TFSA cumulative limit is now as high as $69,500 per person. That's adequate space to build a diversified dividend fund that can create a stream of tax-free earnings to complement existing pension income.

Let's take a look at one dividend stock that appears oversold and might be an interesting pick today.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) might be Canada's third-largest bank, but it certainly isn't small. In fact, the company has a market capitalization of $84 billion and employs 100,000 people serving 25 million customers.

The bank exited more than 20 non-core countries in the past couple of years, refocusing efforts on Canada, the United states, and Latin America.

The best growth opportunities arguably lie in the Pacific Alliance markets of Mexico, Peru, Chile, and Colombia. Bank of Nova Scotia has invested billions of dollars on acquisitions in the region and more deals should be on the way. The Pacific Alliance countries are home to more than 225 million people. Banking penetration is less than 50%, so there is significant potential to grow revenue and earnings as the middle class expands and demand rises for loans and investment products.

On the commercial side, Bank of Nova Scotia's presence in each of the four Pacific Alliance countries gives it a leg up for securing business with companies that are taking advantage of the trade bloc's benefits. Labour, goods, and capital can move freely and businesses that expand to the other countries need a wide array of cash management services.

At home, Bank of Nova Scotia made two large wealth management acquisitions in 2018 that added more than $85 billion in assets under management. In fiscal Q1 2020, the bank created a new global wealth division that holds the new businesses as well as the wealth management operations that previously sat under the Canadian banking group.

A string of deals in the wealth management sector occurred in Canada in the past few years, as the big banks search for high-margin business to help offset declining net interest margins due to falling interest rates.

Risks

Recent rate cuts by the United States and Canada could put further pressure on margins. However, lower rates should drive additional borrowing for home purchases and business investment. At the same time, reduced rates help existing borrowers get through tough times. In the event we see a meaningful economic slump, the default impact should be mitigated by the Bank of Canada's latest rate move.

Should you buy?

Bank of Nova Scotia trades at just $69 per share, or roughly 10 times trailing earnings. That is getting quite cheap given the company's strong profitability and long-term growth potential.

Additional downside could be on the way in the near term, as volatility connected to daily news on the coronavirus spread shifts market sentiment. I wouldn't back up the truck, but investors might want to start nibbling on the stock. You get paid a solid 5.2% yield and can look to add to the position if the price dips meaningfully lower.

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Date
2025/08/20
Date Created
2020/03/05
Author
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