3 Reasons Investors Should Put This Year's $6,000 TFSA Contribution in This 1 Stock

Description

If you're wondering where to put your $6,000 TFSA contribution for the 2021 tax year, look no further. I'd highly recommend putting your money to work in this Canadian bank.

Canada's third-largest bank, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is my top pick for 2021. Here are three reasons why.

Reason #1: Acquisitions are bullish for long-term growth

Scotiabank has been on a tear over the past decade in the mergers and acquisitions space. Acquisitions in recent years include the Chilean bank BBVA and other South American banking deals. One of the reasons I think these deals are bullish long term is the tremendous amount of synergies waiting to be unlocked. The value that Scotiabank can continue to create long-term via these acquisitions remains solid and is one of the core investing theses for this stock.

Asset management acquisitions are also interesting. This is because this sector of the financials space has higher growth rates than retail and other cyclically depressed sectors. Scotiabank has therefore hedged its bets well before this pandemic. The position Scotiabank's management team have put the company in is not only a good position to compete but to thrive in the years to come.

Reason #2: Diversification is unmatched

Canada's banking sector is notoriously underdiversified. This is one area I think Scotiabank really excels compared to its peers. Scotiabank has broadened its horizons, giving investors exposure to areas of the world with higher growth rates and underbanked regions of the world. Particularly, Latin America (including Mexico) and the Caribbean are excellent growth areas long term.

If you're expecting weakness domestically and in North America more broadly, Scotiabank is the best Canadian bank to take advantage of a more global approach to this sector.

Reason #3: Fundamentals are impressive

Scotiabank reported impressive earnings recently, posting an 18% earnings surprise this most recent quarter. Additionally, the company has earned a return of almost 12% on shareholder equity in 2020 on beaten-up earnings. With the pandemic impacting financials to a greater degree than the rest of the market, these are outstanding returns. Some analysts expect that when we get closer to the middle of the cycle coming out of this mess, these returns could increase a few percentage points higher.

Scotiabank's dividend of 5.3% is very juicy. This dividend yield is supported by earnings growth of around 5% a year from the 2008-2020 time frame, an impressive growth rate relative to its peers. Scotiabank's payout ratio is below 70%, and there remains lots of room for additional dividend increases in the future — that is, should the Canadian government allow them.

Bottom line

Given the company's mid-single digit dividend as well as its stable and growing earnings profile, there's a real logical pathway to double-digit growth for this stock long term. Indeed, Scotiabank is cheap at these levels and could be the winning stock investors will wish they bought in 2021!

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