Why This Top TSX Stock Soared Nearly 60% Over the Past Year

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has been a top pick of mine for some time. Indeed, Scotiabank stock has outperformed in recent months, and is a stock that has recently moved much higher than its pre-pandemic levels.

That's a great sign for long-term investors who bought the dip last year. Those worried about a market crash have done well to hold steady with stocks like Scotiabank during the mayhem.

Here's why I think there's no time like the present to own this top-notch large Canadian bank today.

Great income option, particularly for yield-seekers

As I touched on in significant detail in one of my previous pieces, Scotiabank actually carries a pretty attractive dividend yield relative to its peers. In fact, the company's dividend yield was at one point the highest among its peers (now second on the list only to CIBC).

Currently, Scotiabank boasts a dividend yield of 4.5%, which is still excellent considering the growth prospects of this bank. While investors may be kicking themselves for not locking in the high single-digit yield this stock offered last year, I think there's a tonne of momentum for this name that could take this stock appreciably higher over the near to medium-term.

Over the long term, few companies can boast as stable a dividend as Scotiabank.

Growth prospects driving this stock higher

Scotiabank's exposure to Latin America is really a key difference shareholders need to key in on. This type of growth the company's Latin American operations provide is really outstanding relative to its peers. Indeed, Scotiabank has done a good job of finding a niche growth area to invest in, and do so successfully.

Scotiabank's ability to provide investor diversification is another key investment thesis for owning this stock. Those with overexposure to Canadian stocks should consider Scotiabank in the banking space for geographical diversification alone.

All Canadian banks undervalued, but Scotiabank remains a top pick

The Canadian government's various coronavirus-related programs helping the average Canadian have also indirectly boosted the entire banking sector in Canada. As the health of the average Canadian consumer improves as we come closer (hopefully) to the end of the pandemic, this tailwind should become even stronger.

I think financials got hit harder than they probably should have over the past year. The fact that Scotiabank has more than made up all its lost ground from last March is a good sign. Investors are correctly pricing in the level of optimism I have into this stock.

Bottom line

Indeed, the market is overly optimistic right now not only on Scotiabank, but on most stocks broadly. I do think valuations have run hot of late, and stocks are broadly overvalued.

That said, banks still look cheap relative to the long-term total return potential companies like Scotiabank provide. When one factors in the solid income component of these equities relative to bond yields, that value appears even more apparent.

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