



Why Scotiabank Stock Remains a Top Pick in September

Description

Investors would be remiss to ignore Canadian banks when talking about top [dividend stocks](#) on the TSX right now. And in this regard, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, stock certainly looks appealing right now.

The economy is recovering, and Scotiabank stock looks poised to outperform over the medium term. For those bullish on the recovery underway, this remains one of my top picks for September.

Let's dive into why Scotiabank stock could have a strong end to this month.

Scotiabank stock has room to outpace its peers

Scotiabank's relatively flat performance since March signals this is a stock that may be going nowhere. Some investors may look at Scotiabank's high dividend yield and comparably low valuation as reasons to look at other "winning" Canadian bank stocks. However, in my view, this attractive valuation and yield are primary reasons to consider Scotiabank stock.

While Scotiabank stock is currently roughly flat over the past six months, on a year-to-date basis, shares are still [up approximately 15%](#). Since March lows, Scotiabank has seen impressive growth, particularly for investors who were able to lock in sky-high yields.

It's my view that a stabilizing housing market and strong economic recovery over the medium term should bode well for Scotiabank stock. Sure, things could go sideways — that's always a risk. However, those bullish on the future of the Canadian (and global) economy can't go wrong with Scotiabank stock.

The basket of other large Canadian banks is up more than 25% year to date, suggesting a performance gap between Scotiabank and its peers. It's my view that this gap is unwarranted right now. Additionally, I believe that Scotiabank has a preferable business model to its peers for a number of reasons.

Earnings of the Bank of Nova Scotia remain strong

This strong business model has been reflected in otherwise strong earnings during the company's recent Q3 release. Adjusted earnings came in at \$2.56 billion. This allowed Scotiabank to increase its common equity tier one ratio to 12.2% this past quarter. This implies Scotiabank is sufficiently capitalized to handle any economic volatility from here.

Additionally, I see more in the way of falling provisions for loan losses boosting earnings for Scotiabank stock. Over the coming quarters, its expected strength in commodities and other core lending sectors for Scotiabank should remain strong.

Additionally, digital adoption, improving operational efficiencies, and growing non-interest income can also drive the earnings of Scotiabank. This will, in turn, allow the financial institution to pay a healthier dividend yield.

Bottom line

Scotiabank stock stands to be a key beneficiary of an improving macroeconomic landscape. This is a company with excellent growth prospects, and a stable (and relatively high) dividend yield.

For long-term investors, these factors are extremely important. Indeed, this is one of my top picks for September for a reason.

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