1 Top Undervalued Stock for Your TFSA Portfolio

Description

The Tax-Free Savings Account (TFSA) has been a blessing for Canadian investors since it was introduced in 2009. The account offers plenty of flexibility, has a tax-advantaged status, and is versatile.

You can use the account to achieve various short- and long-term financial goals. Using the account to buy and hold investments for the long run to derive substantial tax-free capital gains is one of the best things you can do.

Finding and investing in undervalued stocks for your TFSA portfolio could help you generate significant returns if you have a long investment horizon. The **S&P/TSX Composite Index** has been going through a volatile period lately. The Canadian benchmark index is down by 6.61% from its April 2022 levels. Many high-quality stocks are trading for substantial discounts due to the pullback.

Today, I will discuss a stellar investment you could consider if you want to add a high-quality but oversold blue-chip stock to your TFSA portfolio.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is hardly a name many investors consider when thinking of undervalued stock on the TSX. However, that is exactly the position it might be in right now due to the pullback. The $100.35 billion market capitalization Canadian financial institution is one of the Big Six banks. Headquartered in Toronto, Scotiabank stock is considered a staple in many investment portfolios.

Scotiabank stock trades for $83.32 per share at writing, representing an 8.29% year-to-date decline in its valuation. Its discounted share prices have inflated its dividend yield to a juicy 4.94%. Investing in its shares at current levels could help you lock in a high dividend yield and wealth growth through capital gains if it recovers to its 2022 highs.

Scotiabank stock appears to be an attractive investment right now due to its recent performance. The bank raised its shareholder dividends by 11% at the end of 2021. It delivered another dividend hike after putting up strong figures in its Q2 earnings report for fiscal 2022. The company has also started a share-buyback program using a portion of its provisions for loan losses.

Scotiabank initially planned to buy back 24 million shares but increased its target to 36 million. The change in its management's decision suggests that the bank sees more profitability and better revenues on the horizon. The positive decisions have come forth, despite increasing fears of an economic recession hitting the Canadian markets.

Foolish takeaway

Scotiabank stock has historically been one of the most reliable investments on the TSX. The Canadian bank has a stellar track record of paying its shareholders their dividends each quarter without fail. It has managed to continue disbursing a share of profits to its shareholders through several economic recessions, and it appears well positioned to continue the trend.

The recent pullback has lowered its share prices to more attractive levels. However, there could be more losses if the recent interest rate hikes cause a housing market downturn. Scotiabank and its peers in the Canadian banking sector rely heavily on mortgage income.

Its exposure to the banking sector in the Pacific Alliance trade bloc countries of Mexico, Chile, Colombia, and Peru could provide it with some safety and considerable long-term growth potential.

Investing in Scotiabank stock and holding its shares in your TFSA could be worthwhile in the long run.

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