1 Oversold TSX Stock (With a 6% Yield) I'd Buy in Bulk This November

Description

In the first 10 months of 2022, several dividend-paying TSX stocks across sectors have underperformed the broader markets. Macroeconomic conditions remain uncertain due to rising interest rates, red-hot inflation, geopolitical tensions, and supply chain disruptions, all of which have contributed to the selloff.

But as stock prices and forward yields are inversely related, you can now buy quality stocks trading at cheap valuations that also pay tasty dividend yields. One such dividend stock on the TSX is the **Bank of Nova Scotia** (TSX:BNS).

While banking stocks are cyclical, Canadian banks are much more conservative than their counterparts south of the border. So, while growth rates for BNS and its peers are consistent rather than stellar, their risk-averse approach allows them to benefit from a healthy balance sheet.

During the financial crisis of 2008-09, several U.S. banks suspended dividend payments, as they were on the cusp of filing for bankruptcy. But Canadian banks maintained these payouts, allowing investors to generate a passive-income stream across business cycles.

In the following year, higher rates might drive consumer and corporate loan numbers lower while increasing the risk of delinquencies. But it should also boost the profit margins of Canadian banks and offset a part of this decline.

BNS stock is trading 30% below all-time highs, increasing its dividend yield to 6.23%. So, let's see why this oversold blue-chip Canadian stock should be part of your portfolio right now.

Is BNS stock a buy right now?

As the Canadian banking industry is highly regulated, it insulates market leaders such as the Bank of Nova Scotia from rising competition. Further, mergers and acquisitions are not approved quickly, which protects the sovereignty of Canadian banks.

This conservativeness has been ingrained at the grassroots level, allowing BNS and its peers to make well-calculated investment decisions. Yes, the banking industry remains vulnerable to macroeconomic shocks, but strong liquidity positions and cash reserves enable blue-chip companies to get through business cycles easily.

While most Canadian banks have a strong presence in North America, Bank of Nova Scotia is focused on South American markets such as Chile, Columbia, Mexico, and Peru. These emerging economies should drive revenue and earnings for BNS higher over time and support consistent dividend increases.

BNS stock is a dividend-paying giant

Bank of Nova Scotia began paying investors a dividend in 1833 and has maintained its payout ever since, which is mind-boggling. In the last two decades, the company has witnessed the dot-com bubble, a global financial meltdown, a worldwide pandemic, and an ongoing economic slowdown. However, since October 2002, BNS stock has returned over 500% to investors after adjusting for dividends.

A $10,000 investment in BNS stock back in October 2002 would allow you to buy 426 shares of the company and generate $342 in annual dividends in the next 12 months, translating to a forward yield of 3.4%. If you still own 426 BNS shares, annual dividends would increase to $1,755 in the next year. We can see how owning quality dividend stocks can increase your dividend yield significantly over time.

BNS stock is valued at less than eight times forward earnings, which is quite cheap given its dividend yield and potential earnings expansion. Analysts tracking the stock expect shares to rise by 25% in the next year. After accounting for dividends, total returns will be closer to 33%.

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