TFSA Investors: A Big Bank Stock That Pays Almost 6% in Dividend Income

Description

The operating environment in 2023 could be more challenging than last year because of an unavoidable recession and muted economic growth. While inflation is trending downward, the Bank of Canada is still far from its 2% to 3% target. As such, Tax-Free Savings Account (TFSA) investors should remain cautious and stick to large-cap stocks as much as possible.

You will be in a position of strength this year if you have a Canadian Big Bank stock in your portfolio. Fitch Ratings maintains stable ratings for the Big Six, notwithstanding the deteriorating outlook for the banking sector. According to the rating agency, their strengths are asset quality, profitability, capitalization, and liquidity profile.

However, if you want higher tax-free passive income every quarter, the **Bank of Nova Scotia** (TSX:BNS), or Scotiabank, is a dividend powerhouse. Its 5.93% dividend yield is the highest in the group. A change is also coming for the $84.8 billion bank as a new CEO takes over the reins on February 1, 2023.

Solid fiscal 2022 earnings

In fiscal 2022 (12 months that ended October 31, 2022), Scotiabank reported a net income of $10.2 billion, representing a 2.2% increase from fiscal 2021. The International Banking (IB) segment saw its full-year adjusted earnings rise 32% to $2.4 billion from a year ago.

However, in Q4 fiscal 2022, net income declined 19.3% year over year to $2.1 billion. Despite the significant decrease in quarterly profits, Brian Porter, outgoing President and CEO, said the results reflect the diversified earnings power of Scotiabank.

Porter adds, “Simply put, our Bank is a different bank today – one well-placed to deliver consistent long-term growth, and to cultivate our world-class culture, now and into the future.” In 50.2 years, the bank stock’s total return is 173,905.71%, a compound annual growth rate (CAGR) of 16%.

Thus far in 2023, BNS is the second-best performing Big Bank stock with its 9% year-to-date gain. The current share price is $71.20, although market analysts covering the stock have a 12-month average and high price targets of $77.87 (+9.37%) to $88.63 (+24.48%).

Refining the business

Incoming CEO Scott Thomson has been a Scotiabank board member since 2016 and was previously connected with **Goldman Sachs** and **Finning International**. Thomson will focus on the IB segment, including a strategy change and business line refinement.

Thomson notes the returns from Scotiabank's international strategy haven't matched the overall risks. He said, "We deployed a lot of capital into the international markets over the last ten years, and the returns on that capital have not been commensurate with the risk we've taken." He sees an opportunity to refine the business line from now on.

Scotiabank has well-established, diversified franchises in Latin America, including the Pacific Alliance countries (Chile, Colombia, Mexico, and Peru). The bank also serves retail, corporate, and commercial customers in Central America and the Caribbean.

On the unsecured retail business, Thomson wants to emulate the success in the Mexican market. He said Mexico is a shining example and a great franchise considering the 8% market share and a more than 20% return on equity.

Core holding

Momentum should be on the side of Scotiabank with new leadership next month. But more than the change, the Big Bank stock is an ideal core holding in a TFSA in times of uncertainty.

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