



Is Bank of Nova Scotia the Top Value Play in the Banking Industry?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)), the third-largest bank in Canada in terms of total assets, announced better-than-expected second-quarter earnings results before the market opened on May 29, and its stock has responded by rising over 2% in the trading sessions since. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for a better entry point in the trading sessions ahead.

Surpassing analysts' expectations with ease

Here's a summary of Bank of Nova Scotia's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.43	\$1.39	\$1.40
Revenue	\$5.94 billion	\$5.90 billion	\$5.73 billion

Source: *Financial Times*

Bank of Nova Scotia's adjusted diluted earnings per share increased 2.1% and its revenue increased 3.7% compared with the second quarter of fiscal 2014. The company's slight earnings-per-share growth can be partially attributed to its total interest expenses decreasing 4% to \$1.71 billion and its average number of common shares outstanding decreasing 0.4% to 1.21 billion. Its slight revenue growth can be attributed to its net interest income increasing 4.8% to \$3.2 billion, driven by 8.3% growth to \$1.57 billion in its Canadian Banking segment and 7.1% growth to \$1.38 billion in its International Banking segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Net income remained unchanged at \$1.8 billion

2. Non-interest income increased 3.5% to \$2.85 billion
3. Total assets increased 5.7% to \$837.16 billion
4. Total deposits increased 4.3% to \$575.28 billion
5. Total loans increased 4.1% to \$435.96 billion
6. Total assets under administration increased 6.4% to \$445.77 billion
7. Total assets under management increased 11.3% to \$176.8 billion
8. Book value per share increased 9.3% to \$38.61

Bank of Nova Scotia also announced that it will be maintaining its quarterly dividend of \$0.68 per share, and the next payment will come on July 29 to shareholders of record at the close of business on July 7.

Is now the time to buy Bank of Nova Scotia?

Bank of Nova Scotia posted a solid second-quarter performance, so I think the post-earnings pop in its stock is warranted. I also think this could be the start of a sustained rally higher because the stock still trades at inexpensive forward valuations and has a high dividend yield.

First, Bank of Nova Scotia's stock trades at just 11.6 times fiscal 2015's estimated earnings per share of \$5.71 and only 10.8 times fiscal 2016's estimated earnings per share of \$6.11, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 12.4 and the industry average multiple of 13.4. It also trades at just 1.71 times its book value per share of \$38.61, which is very inexpensive compared with its market-to-book value of 1.89 at the conclusion of the year-ago period.

Second, Bank of Nova Scotia pays an annual dividend of \$2.72 per share, giving its stock a 4.1% yield at today's levels. The company has also increased its dividend for five consecutive years, showing that it is dedicated to maximizing shareholder value and making it one of the top dividend-growth plays in the financial sector today.

With all of the information provided above in mind, I think Bank of Nova Scotia represents one of the best value and dividend investment opportunities in the market today. Foolish investors should strongly consider beginning to scale in to positions.

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1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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