



Is Bank of Nova Scotia a Buy After its Q1 Beat and Dividend Hike?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)), the third-largest bank in Canada, announced better-than-expected first-quarter earnings results and a dividend hike this morning, and its stock has responded accordingly by rising over 2%. Let's take a closer look at the quarterly report to determine if we should consider buying into this rally or if we should wait for a better entry point in the trading sessions ahead.

The better-than-expected quarterly performance

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

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Earnings Per Share	\$1.43	\$1.42	\$1.35
Total Revenue (TEB)	\$6.51 billion	\$6.27 billion	\$5.96 billion

Source: *Financial Times*

Bank of Nova Scotia's earnings per share increased 5.9%, and its total revenue on a taxable equivalent basis increased 9.4% compared with the first quarter of fiscal 2015.

Its strong earnings-per-share growth can be attributed to its net income increasing 5.1% to \$1.81 billion, driven by growth in its two largest operating segments, including 7.4% growth to \$875 million in its Canadian Banking segment and 20.9% growth to \$561 million in its International Banking segment.

Its very strong revenue growth can be attributed to two primary factors.

First, its net interest income increased 10.9% to \$3.52 billion, driven by growth in all three of its major operating segments, including 12.1% growth to \$1.74 billion in its Canadian Banking segment, 15.5% growth to \$1.56 billion in its International Banking segment, and 13.1% growth to \$302 million in its

Global Banking and Markets segment.

Second, its non-interest income increased 7.6% to \$2.99 billion, led by its net fee and commission revenues increasing 5.3% to \$2.08 billion.

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

1. Total assets increased 7.9% to \$919.6 billion
2. Customer loans and acceptances increased 7.9% to \$630.9 billion
3. Deposits increased 7.8% to \$486.9 billion
4. Common shareholders' equity increased 8.5% to \$50.9 billion
5. Assets under administration increased 2.7% to \$452.6 billion
6. Assets under management increased 3% to \$179 billion
7. Book value per share increased 9.2% to \$42.32
8. Productivity ratio on a taxable equivalent basis improved 110 basis points to 54.8%

Dividend hike? Yes, please

Bank of Nova Scotia also announced a 2.9% increase to its quarterly dividend to \$0.72 per share, and the next payment will come on April 27 to shareholders of record at the close of business on April 5.

What should you do with Bank of Nova Scotia now?

It was a phenomenal quarter overall for Bank of Nova Scotia, and its dividend hike was icing on the cake, so I think the market has responded correctly by sending its shares higher. I also think this could be the start of a sustained rally higher and that the stock represents a very attractive long-term investment opportunity for two primary reasons.

First, it's undervalued. Bank of Nova Scotia's stock still trades at just 9.6 times fiscal 2016's estimated earnings per share of \$5.89 and only nine times fiscal 2017's estimated earnings per share of \$6.28, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.7 and the industry average multiple of 12.8. It also trades at a mere 1.34 times its book value per share of \$42.32, which is a major discount compared with its five-year average market-to-book value of 1.9.

Second, it has a high dividend and is a dividend-growth play. Bank of Nova Scotia now pays an annual dividend of \$2.88 per share, which gives its stock a very high and very safe yield of about 5.1%. It has also raised its annual dividend payment for five consecutive years, and its recent increases, including the 2.9% hike it just announced and its 2.9% hike in August 2015, has it on pace for 2016 to mark the sixth consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in Bank of Nova Scotia today.

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2. TSX:BNS (Bank Of Nova Scotia)

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Author

jsolitro

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