



## Bank of Nova Scotia's Q2 Results Beat Expectations: Should You Buy Now?

### Description

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), Canada's third-largest bank in terms of total assets, announced better-than-expected second-quarter earnings results before the market opened on May 31, but its stock has reacted by making a slight move lower. Let's break down the results and the fundamentals of its stock to determine if this weakness represents a long-term buying opportunity or if it could continue lower from here.

### Breaking down the earnings beat

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

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Earnings Per Diluted Share	\$1.46	\$1.42	\$1.42
Total Revenue (TEB)	\$6.65 billion	\$6.44 billion	\$6.05 billion

*Source: Financial Times*

Bank of Nova Scotia's earnings per diluted share increased 2.8% and its total revenue on a taxable equivalent basis (TEB) increased 9.8% compared with the second quarter of fiscal 2015.

Its slight earnings-per-share growth can be attributed to its adjusted net income increasing 3.6% to \$1.86 billion, driven by 17.9% growth to \$977 million in its Canadian Banking segment and 15.2% growth to \$561 million in its International Banking segment.

Its very strong revenue growth can be attributed to its net interest income (TEB) increasing 10% to \$3.52 billion, driven by 15.2% growth to \$1.59 billion in its International Banking segment, and its non-interest income (TEB) increasing 9.6% to \$3.13 billion, driven by its total banking revenues increasing 11.4% to \$1.03 billion.

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

1. Total assets increased 6.9% to \$894.96 billion
2. Deposits increased 5.9% to \$609.31 billion
3. Loans increased 7.1% to \$466.85 billion
4. Common shareholders' equity increased 4.8% to \$48.95 billion
5. Assets under administration increased 1.7% to \$453.47 billion
6. Assets under management increased 1.5% to \$179.41 billion
7. Book value per common share increased 5.4% to \$40.70
8. Productivity ratio on a taxable equivalent basis improved 410 basis points to 57.4%

Bank of Nova Scotia also announced that it would be maintaining its quarterly dividend of \$0.72 per share, and the next payment will come on July 5 to shareholders of record at the close of business on July 27.

### **What should you do with Bank of Nova Scotia stock today?**

It was a solid quarter overall for Bank of Nova Scotia, and its results exceeded expectations, so I think the market should have reacted by sending its stock higher. With this being said, I think the decline in its stock represents a great buying opportunity for the long term for two reasons in particular.

First, it's a value play. Bank of Nova Scotia's stock trades at just 11.1 times fiscal 2016's estimated earnings per share of \$5.81 and only 10.5 times fiscal 2017's estimated earnings per share of \$6.17, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.5 and the industry average multiple of 13.7. It also trades at a mere 1.59 times its book value per share of \$40.70, which is a discount compared with its five-year average market-to-book value of 1.85.

Second, it's a dividend play. Bank of Nova Scotia pays an annual dividend of \$2.88 per share, which gives its stock a very high and very safe yield of about 4.5%. It's also very important to note that it has raised its annual dividend payment for five consecutive years, and its three hikes since the start of 2015, including its 2.9% hike in March, have 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 Bank of Nova Scotia is a strong buy. All Foolish investors who do not have exposure to the banking industry should strongly consider initiating positions today.

### **CATEGORY**

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

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

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