Bank of Nova Scotia’s Stock Down on Q4 Results: Should You Buy the Dip?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) released its fourth-quarter earnings on Tuesday. Net income of $2.07 billion was up 3% year over year, while revenues were up less than 1%. Earnings per share of $1.64 were up from $1.57 a year ago, but adjusted earnings of $1.65 a share just missed the $1.66 that was expected by analysts.

The results were not as strong as the Q3 results the bank reported back in August, which saw income grow by 7%. Investors were slightly disappointed with the results, as the stock dropped more than 2% in trading on Tuesday. However, let’s take a closer look at the results and the earnings release to assess whether or not the Bank of Nova Scotia is a good buy today.

Canadian banking fuels the company’s performance in Q4

The bank saw sales grow 5% in Canada, and net income was up 12%. In its international banking segment, Bank of Nova Scotia saw its top line grow less than 3%, but profits of $660 million were up over 6% from last year.

Global banking and markets performed the poorest, with sales down 7% from a year ago, and net income declining by more than 15%. The company blamed the drop on smaller contributions from precious metals businesses and fixed income in addition to foreign currency impacts.

The bank looks to expand its operations in South America

Bank of Nova Scotia announced that it had submitted an offer to Banco Bilbao Vizcaya Argentaria S.A. to acquire 68.19% ownership in BBVA Chile for a little less than $3 billion. If the bid goes through, the transaction would be expected to close by next summer and would double the bank’s presence in Chile.

Mortgages expected to be down in 2018

Although the bank saw mortgages grow by 5% year over year, it acknowledged that under the new stress tests, it will likely result in “a bit of a headwind.” James O’Sullivan, head of Canadian banking, admitted that the bank could see a 5% drop in new mortgages next year as a result of the changes.

The tougher mortgage tests might make lending companies less appealing to investors given that growth opportunities will likely be more limited next year, but Bank of Nova Scotia’s geographical diversification makes the stock less of a risk than other Canadian banks.

Why the stock is a great buy today

Unlike other Canadian banks, Bank of Nova Scotia has more diversification outside North America and can offer investors a less-risky investment. Further expansion into Chile will only continue to lessen the company’s exposure to the North American market.

With a dividend of 3.87%, the bank offers a great payout that has increased nearly 40% in the past five years. If a growing dividend isn’t enough, consider that year to date the stock has risen more than 9% and has been one of the top bank stocks, outperformed only by **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Bank of Nova Scotia gives investors a great way to invest in a stable bank stock, while also benefiting from significant diversification. The stock would be a great addition to any portfolio for either the short term or long term, as investors can likely benefit from dividend income as well as capital appreciation.

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