Should You Buy Bank of Nova Scotia (TSX:BNS) on the Weakness?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock has been a weak performer among its peers as of late. Year to date, Scotiabank stock has declined 7.5%, while the stocks of **Royal Bank of Canada** and **Toronto-Dominion Bank** have declined 2.5% and appreciated 3%, respectively.

When any of the big Canadian banks experience weak share prices, it probably means it's a good opportunity to consider it for high dividend yields, because lower share prices boost the underlying dividend yields.

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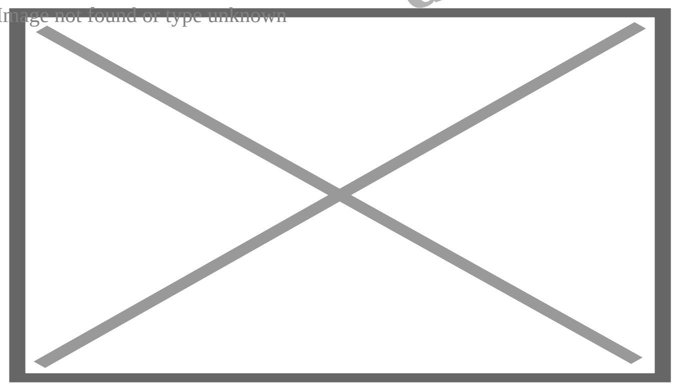

Scotiabank is Canada's most international bank. It has operations in almost 50 countries with less than half of its employees residing in Canada.

In general, Scotiabank expects higher growth in its international banking operations. However, at the same time, the risk of Scotiabank's international banking operations is higher than its Canadian operations.

In fiscal Q2, the bank saw loan growth and net income growth year over year of 7% and 5%, respectively, in its Canadian banking business. The provision for credit losses ratio for the quarter for this business was 0.25%.

In the same period, it observed loan growth and net income growth year over year of 11% and 15%, respectively, in its international banking business. The provision for credit losses ratio for the quarter for this business was 1.22%.

Why Scotiabank stock is down

The stock is down partly because of recent acquisitions of MD Financial Management for $2.6 billion, and Jarislowsky Fraser for about $950 million. About 70% of the total amount used for the acquisitions will be funded by issuing common stock.

This can cause dilution in the near term, and this has put the stock under pressure. Additionally, if certain growth targets are achieved, Scotiabank will pay an earn-out of up to $56 million in common stock related to the Jarislowsky Fraser acquisition.

That said, the acquisitions will expand Scotiabank's portfolio meaningfully. MD Financial is a leading provider of financial services to physicians and their families in Canada with about $49 billion in assets under management and administration. Jarislowsky Fraser is an independent investment firm with about $40 billion in assets under management.

Investor takeaway

The bottom line is that Scotiabank has been and will continue to be a great long-term core holding. Investors should aim to buy the stock when it's relatively cheap, so they can get a nice dividend that will grow over time.

At about $75 per share, the stock trades at a price-to-earnings multiple of about 10.9, while its long-term normal multiple is about 12. So, the stock is a good buy here for a pleasing yield of about 4.4%. Scotiabank has the ability to grow its dividend by 5-8% per year for the foreseeable future.

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