This Big Five Bank Is Undervalued With 15% Upside!

Description

Financials have long been the backbone of Canada's markets. The **S&P/TSX Capped Financial Index** has consistently outperformed the **S&P/TSX Composite Index** over three, five and 10-year periods. Leading the charge are Canada's Big Five Banks — six if you include **National Bank of Canada**.

It's no different this year. Year to date (YTD), the Big Six have returned an average of 1.36%. In comparison, the broader **TSX Index** has returned 0.84%. Neither are impressive, but the financials are proving more reliable once again.

Although the majority of banks are within a few percentages of each other, there is one outlier who has significantly underperformed: **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). The bank's shares have dropped 7.61% so far in 2018, which is far below peer averages.

Does the underperformance equal opportunity?

Acquisition spree

Bank of Nova Scotia has been the most aggressive buyer among its peers. Since 2008, the company has spent more than $13 billion on acquisitions, which is just shy of 7$ billion in 2018 alone. This is by far tops in the industry, and it is now the third-largest lender in the country.

Unfortunately, this growth strategy has weighed on the bank's share price. Research shows that shareholders of the acquirees tend to underperform relative to the shareholders of the companies being acquired. This is particularly true of share-financed transactions.

To help finance its recent acquisitions, the bank issued $1.7 billion in new equity. In the short term, the issuance of common shares had the unfortunate effect of diluting existing shareholders.

Likewise, its $2.6 billion acquisition of MD Financial was equal to 7% of assets under management. It was one of the most expensive multiples ever paid in the industry. There is no question that the acquisition was a strategic once, but it will take time for the company to digest.

Current valuation

As a result of its recent share weakness, the company is trading on the cheap. Bank of Nova Scotia is currently trading at 10.9 times earnings, below its historical P/E average of 12.2. I've written about this before, but without fail, Canada's big banks always revert to historical averages.

Once it trades in line with historical averages, investors would be looking at a price of $82.22. Likewise, the 15 analysts covering the company have an average one-year price target of $86.92 per share. This implies 15% upside, which is among the highest in the industry.

It is also the only one of its peers trading below even the lowest analyst's estimate. For Bank of Nova Scotia, the lowest price target is $80.82. This is 7.1% higher than today's share price.

Great opportunity

It's rare to pick up one of Canada's Big Six banks so cheap. Likewise, investing in the worst-performing bank has proven to be a can't-miss strategy for investors. As of today, Bank of Nova Scotia offers the greatest upside in the industry with limited downside.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/10
Date Created
2018/09/17
Author
mlitalien