



## Is Bank of Nova Scotia (TSX:BNS) Stock a Buy for 2019?

### Description

It's a fire sale! After the poor performance of Canada's financial sector last quarter, there are plenty of bargains to be had. As such, it is the perfect time to take a look at Canada's Big Five banks, the most reliable in the industry.

Interestingly, all five are now trading below historical price-to-earnings (P/E) averages. Over the past 20 years, this has been a reliable buy signal. Every time the banks dip below their P/E averages, they always revert to the mean. At this point, I would be comfortable investing in any of the Big Five. If you are looking for the cheapest, however, that distinction belongs to **Bank of Nova Scotia (TSX:BNS)** ([NYSE:BNS](#)).

### BNS stock performance

In 2018, Bank of Nova Scotia limped to the finish line with a 16.49% loss. This was a close second to the [worst-performing bank](#) in Canada, **Canadian Imperial Bank of Commerce**. Looking further out, however, Bank of Nova Scotia shareholders have trailed the pack. Over the past two years, its share price has lost 12% and its five-year return of 5.96% is by far the lowest of the group. Its five-year compound annual growth rate is only 1.2%. In comparison, CIBC, which has a five-year CAGR of 3.2%. [Canada's best-performing bank](#), **Toronto-Dominion Bank**, has a CAGR of 7.9%.

The company's stock price isn't keeping up with its historical growth rate. It has grown earnings by a CAGR of almost 6% over the past five years, and revenue has grown at an annual pace of approximately 7.3%.

### Best-valued bank?

Bank of Nova Scotia is trading below its five-year price-to-book, price-to-sales, and price-to-free-cash flow multiples. Likewise, its current P/E of 9.70 is well below its historical average of 12.1 times earnings. A return to the mean would imply a share price of \$82.52 — 21% upside from today's price of \$68.27. Analysts are expecting the company to record earnings of \$7.46 in 2019. As such, it is not out

of the question that Bank of Nova Scotia could be trading around \$90 in one-year's time.

The company's Graham Number, a measure of intrinsic value, is \$89.08 per share, and analysts have a one-year price target of \$84.17 on the stock. Both point to upside of +20% over its current share price.

## Best bank for growth?

Bank of Nova Scotia is on pace for 8% revenue growth in 2019. This is tops among the Big Five. It is expected to top the group once again in 2020 with 6.20% revenue growth. This is not surprising, as the company has been on a significant acquisition spree. In 2018, it made just shy of \$7 billion in acquisitions. It has been the most active player in the industry.

Earnings-per-share growth is expected to be approximately 7% over the next couple of years. This places it second behind Toronto-Dominion for the highest EPS growth rates.

## Foolish Takeaway

Bank of Nova Scotia has been a dog as of late. However, recent acquisitions and its status as one of the best valued banks have it well positioned to outperform in 2019.

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