



Is Bank of Nova Scotia (TSX:BNS) Attractive Right Now?

Description

The Canadian banks are rolling out their fiscal Q1 earnings and investors are trying to decide which [bank stocks](#) might be the best buys for their self-directed TFSA or RRSP funds.

Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#)) ([NYSE:BNS](#)) to see if it might be an interesting pick right now.

Earnings

Bank of Nova Scotia reported adjusted net income of \$2.29 billion for fiscal Q1, which was down 3% compared to the same period last year. Diluted earnings per share slipped 6%. On the surface, that doesn't sound great, but there are other items to consider. The company saw expenses jump 18% in the quarter on a year-over-year basis, with acquisition costs and a benefits re-measurement accounting for two-thirds of the increase.

Canadian banking operations generated a 3% increase in revenue compared to Q1 last year. Overall loan growth in the division was 4%, supported by a 10% increase in business loans. Deposits increased 9%.

Bank of Nova Scotia's international business fared better. Revenue rose 22%, supported by acquisitions. Adjusted net income increased 18%. Bank of Nova Scotia has invested heavily in recent years to build its Latin American operations, with a focus on the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia.

The bank continues to build its presence in the region, and the Pacific Alliance bloc should generate a larger percentage of overall profits in the coming years. The international division contributed \$805 million, or 35% of the adjusted net income for the quarter.

Risks

Bank of Nova Scotia's capital position is strong, with a CET1 ratio of 11.2%. Management expects the metric to remain above 11% through 2019.

This is important, as investors decide how much risk might be sitting in the mortgage portfolio. Bank of Nova Scotia finished fiscal Q1 with \$216 billion in Canadian residential mortgages on the books. Insured loans represent 42% of the portfolio and the loan-to-value ratio on the rest is 55%.

Barring a major crash in house prices, the bank shouldn't run into any significant mortgage issues. Interest rate hikes are likely on pause for most of 2019, which should give homeowners a chance to adjust to the increases that occurred over the past two years.

The Canadian and U.S. economies remain in good shape, although Bank of Nova Scotia is anticipating weaker performances in 2019 compared to last year.

Valuation

The stock is down about \$3 per share, or 4%, in recent trading due to a negative reaction to the Q1 results and outlook. At the time of writing, investors can buy Bank of Nova Scotia for \$72.8 per share. That's still above the December low around \$67, but well off the 12-month high above \$82.

The stock was arguably oversold a few months ago, but appears reasonably priced right now at roughly 11 times trailing earnings.

Dividends

Bank of Nova Scotia just raised the quarterly dividend by \$0.02 to \$0.87 per share, which is good for a [yield](#) of 4.7%.

Should you buy?

Near-term weakness could continue, so I wouldn't back up the truck today, but investors might want to start nibbling on any additional downside. The stock should be a solid buy-and-hold pick and you get paid well to wait for sentiment to improve.

CATEGORY

1. Bank Stocks
2. Investing
3. Stocks for Beginners

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. Investing
3. Stocks for Beginners

Date

2025/08/18

Date Created

2019/02/27

Author

aswalker

default watermark

default watermark