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

Description

Bank stocks are under pressure again, and that has investors wondering if the latest pullback offers a great buying opportunity, or if it's a signal to book some profits after the early 2019 surge.

Let's take a look at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see if it deserves to be in your portfolio right now.

Earnings

Bank of Nova Scotia reported fiscal Q1 2019 numbers that came in a bit weak compared to the same period last year. When acquisition-related costs are pulled out of the equation, net income slipped 3% to $2.29 billion and diluted earnings per share declined 6% to $1.75 compared to $1.87 in fiscal Q1 2018.

Most of the Canadian banks had a rough time through the last two months of 2018, with volatile stock markets keeping investors and traders on the sidelines and businesses putting off investment decisions.

International strength

The Canadian operations felt the most pain in fiscal Q1, while Bank of Nova Scotia's international division helped mitigate the damage. The company has a large presence in Mexico, Peru, Chile, and Colombia.

These countries make up the Pacific Alliance trade bloc and are a key part of Bank of Nova Scotia's long-term growth strategy. Adjusted earnings increased 18% in the foreign operations in the quarter, supported by strong loan and deposit growth.

The Pacific Alliance countries are home to more than 200 million people. As middle-class income expands, demand for loans and investments should increase, especially given the relatively low banking penetration in the region.

Dividends

Despite the rough results for the first quarter, Bank of Nova Scotia still bumped up its quarterly dividend by $0.02 to $0.87 per share, representing a 6% gain compared to the same time a year ago.

At the time of writing, the stock is down to $70.80 per share. Investors who buy today can pick up a yield of 4.8%.

Valuation

The current stock price puts the trailing 12-month price-to-earnings multiple at roughly 10.6 times. That's starting to appear cheap. Bank of Nova Scotia remains very profitable, the dividend should be safe, and the Latin American division hold strong growth potential.

In addition, Bank of Nova Scotia remains well capitalized with a CET1 ratio of 11%. This is important in the event the Canadian economy hits a rough patch or the housing market drops more than expected.

Risks

Canadians are carrying historically high levels of personal debt, and that remains a risk for all of the country's banks. Strong employment levels have enabled Canadians to weather the wave of interest rate hikes over the past couple of years, but an economic downturn could result in higher employment and potentially lead to further weakness in the housing market.

The Bank of Canada has halted its rate-hike program, and falling bond yields are starting to put downward pressure on mortgage rates. That should remove some of the risk from the housing market, but could also put pressure on margins, especially if the banks get into bidding wars to win deals this spring and summer.

Should you buy?

The recent downward trend could extend over the coming weeks or even months, so I wouldn't back up the truck today to buy the stock. However, a dip in the P/E multiple back down to 10 or even lower should be viewed as an opportunity for buy-and-hold investors to start adding Bank of Nova Scotia to their portfolios.

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