



Banking on a Rebound: Is Bank of Nova Scotia (TSX:BNS) Stock a Buy Right Now?

Description

The Canadian equity market has staged a strong recovery in the first half of 2019, but some top stocks in the TSX Index are still trading at depressed levels.

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

Cheap stock

Bank of Nova Scotia currently trades for \$71.50 per share. That's up from the December 2018 low around \$66 but still well off the late 2017 high above \$84.

At today's price, investors are paying 10.7 times trailing 12-month (TTM) earnings. This is quite a discount compared to its two larger Canadian [banking peers](#) that fetch multiples above 12 times TTM.

What's the story?

Bank of Nova Scotia's latest quarterly results slightly missed analyst expectations. This tends to sour appetite for the stock.

In addition, the company is working through the integration of three large acquisitions and that could be causing investors to sit on the sidelines while they wait to see if the investments can deliver the expected returns. Two of the deals are in the Canadian wealth management segment and the other was a large purchase in Chile that effectively doubled Bank of Nova Scotia's market share in the South American country.

Opportunity

Bank of Nova Scotia is Canada's most international bank with significant operations located in Latin

America. The company has invested billions of dollars in recent years to build a large presence in Mexico, Peru, Chile, and Colombia. This might sound odd, but the strategy makes more sense when you dig down a bit into the reasoning.

The four countries represent the core of the Pacific Alliance trade bloc that enables the free movement of goods, labour, and capital among the members. The combined markets are home to more than 225 million underbanked consumers. As the middle class expands, demand should grow for loans and investment products. Businesses also need a variety of cash management services when they expand into the other countries.

In comparison, Canada's population is about 37 million with most adults already signed up with a bank.

Risks

Canadian bank stocks could take a hit if home prices crash from their lofty levels. Pundits have been calling for the market to tank for years, and while it could happen, the likely result is a soft landing. Measures put in place by the government to keep high-risk buyers out of the market appear to be working, and a pullback in mortgage rates is giving those who already own a home a chance to renew the loans at manageable levels.

The other threat would come from a recession. Some analysts see dark clouds forming over the U.S. and global economies as a result of the ongoing trade dispute with China. Trouble in the United States's economy would drift across the northern border. In the event Canada goes into a steep economic downturn, job losses would likely result and that could trigger a wave of mortgage defaults and a plunge in home prices.

A global downturn could also have an impact on Bank of Nova Scotia's Latin American division, which contributes about 30% of the bank's overall profits.

For the moment, the risk of a severe downturn appears minimal. The United States and China can't afford to let their differences plunge their respective economies into a deep recession. As such, investors should see a new trade deal emerge that will avoid an economic crisis.

Dividend

Bank of Nova Scotia's dividend should be very safe. The existing payout provides a 4.9% yield.

Should you buy Bank of Nova Scotia?

Ongoing global trade tensions could push the share price lower in the coming months, but Bank of Nova Scotia appears oversold today. Investors with a buy-and-hold strategy might want to start nibbling on the stock at the current price. You get paid well to wait for a recovery if the stock dips, and you won't get caught on the sidelines in the event market sentiment shifts and the share price rallies.

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