



Bank of Nova Scotia (TSX:BNS): A Cheap Stock to Buy or Stay Away From?

Description

It's been a tough one-and-a-half years for investors in **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) stock. While other banking peers in Canada continued their slow and steady upward journey, this lender came under pressure, and it seems it's stuck in the mud.

During the past two years, its stock has fallen about 10% during the period, when, for example, **Toronto-Dominion Bank** surged more than 20%. Going forward, the biggest question that's lurking in investors mind is, how long will it take for BNS stock to resume its upward journey and break out of this bearish spell?

Let's find out what's behind this dismal performance and the factors that have kept Scotiabank stock under pressure.

BNS stock: Two factors causing weakness

The pullback in BNS stock has been largely driven by concerns that the lender's aggressive acquisition drive will erode profitability in the short run. And that fear is true to some extent.

In the most recent quarterly earnings that BNS reported in May, the lender missed analysts' estimates, as higher provisions for loan losses tied mainly to takeovers hurt results. Scotiabank set aside more money for soured loans in its Canadian banking and international divisions, leading to a 63% jump in provisions across the bank.

[BNS has undertaken major changes](#) over the past year, spending more than \$7 billion on acquisitions to bolster its businesses in Chile and in wealth management, while selling a number of international operations in the Caribbean and El Salvador.

The other headwind that's keeping investors cautious about Canadian lenders is the slowing pace of mortgage lending, which used to be a major growth driver in the past decade. The mortgage loan growth slowed after the banking regulator tightened the rules, making it tougher for borrowers to qualify.

Generally speaking, there is no bad time to buy Canada's top banking stocks. History has shown that Canadian lenders are better positioned to reward long-term investors. One big attraction that makes [Scotiabank stock](#) a good buy is its rock-solid balance sheet, growing payouts, and diversified revenue streams.

According to the management, BNS's financial performance will improve in the second half of the year due to further contributions from recent takeovers, growth in international banking, and stronger performance in Canadian banking and capital markets, along with expense management and solid capital ratios.

Bottom line

No doubt, the recovery in Scotiabank stock may take a longer time, as the lender completes the transition after a major acquisition spree, but that weakness offers you the best opportunity to acquire a top banking stock in Canada. Trading at \$70.72 and with an annual dividend yield touching 5%. The lender pays a \$0.87-a-share quarterly dividend.

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