Q3 Stock Earnings Preview: Scotiabank

Description

Canadian investors are gearing up for the third batch of quarterly results at the top banks. It has been a rocky ride for the TSX index this summer, reflecting the volatility we have seen in global markets.

Should that mean heightened concern for **Scotiabank** (TSX:BNS)(NYSE:BNS), the so-called “International Bank”? Back in early May I’d previewed Scotia’s second quarter earnings release. Like its peers, I expected Scotia to bounce back in the second quarter on the back of improved conditions in financial markets. Unfortunately, Scotia posted a 6% year-over-year decline in its Global Banking and Markets segment. This was due to lower net interest income, high non-interest expenses, and lower recovery of provision for credit losses.

Continuing a trend, Scotia’s International Banking segment was one of the bright spots in its Q2 2019 report. Net income rose 4% from the prior year to $700 million and was up 15% on an adjusted basis to $787 million. Scotia reported strong loan growth in the Pacific Alliance countries, which have been a key driver in this segment in recent years. It also benefited from higher non-interest income and the positive impact of recent acquisitions.

Net income in its Canadian Banking segment increased 3% to $1.04 billion and 4% on an adjusted basis to $1.06 billion. This segment was boosted by strong loan and deposit growth, but the increase was offset by lower gains on the sale of real estate. Canadian home sales have climbed higher in the late spring and early summer. Plunging yields have forced down mortgage rates, making it an attractive time to move into the market for prospective buyers.

The Canadian Real Estate Association (CREA) recently reported that home sales climbed 12.6% higher in the month of July. There are good indicators in a sector that has been a constant source of anxiety since the middle of 2017. This is a positive for Scotia and its peers going forward.

Pacific Alliance countries have provided a nice boost to Scotia, but global pressures are taking their toll. The US-China trade war may present the greatest risk right now. It has had a negative impact on economic growth in Chile, we are seeing interest rate cuts in Mexico to curb struggles, and Peru has followed suit. Colombia has bucked the trend and posted 3% growth in the third quarter on the back of the retail, wholesale, and transport sector and its financial industry.

Is Scotia worth picking up right now?

Scotia stock was trading near 52-week lows at the time of this writing. Shares had dropped 3.9% over the past three months. Before its Q2 earnings release I'd discussed how it was at a favourable price point compared to its peers, and this is true today as it boasts a P/E ratio of 10. The stock had an RSI of 29 as of afternoon trading on August 15, putting Scotia in technically oversold territory. Scotia also offers a quarterly dividend payout of $0.87 per share which represents an attractive 5.1% yield.

Shares of Scotia look like a solid value buy ahead of its next earnings release, though broader headwinds may give investors some pause.

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