



Why Scotiabank (TSX:BNS) Stock Surged After Earnings

Description

Bank stocks were hit hard in March and April, as the COVID-19 pandemic has impacted nearly every sector of the economy. Last month, I'd discussed why investors should [not expect bank stocks to bounce back](#) as swiftly as others have. However, this was not to say that bank stocks were not still a worthy addition for investors who were looking long term. Earlier this month, I'd listed my [top three bank stocks](#) ahead of the second-quarter earnings season. **Scotiabank** ([TSX:BNS](#))([NYSE:BNS](#)) was one of the stocks that made the list.

Shares of Scotiabank shot up 7.41% on May 26. This came after the bank released its second-quarter 2020 results before markets opened on the same day.

Scotiabank took a hit in the second quarter

The second quarter saw Scotiabank report a rough quarter due to the impacts of the COVID-19 pandemic and the lockdowns that have been initiated to slow its spread. Adjusted net income dropped to \$1.37 billion compared to \$2.26 billion in the prior year. Return on equity came in at 8.2%, down sharply from 13.6% in Q2 2019.

Scotiabank's provisions for credit losses rose to \$1.85 billion in the quarter. That represents a stunning 111% increase from the \$873 million worth of bad loans Scotia revealed in Q2 2019. Canada's top banks have been backed into a corner due to the COVID-19 pandemic. The federal government introduced mortgage deferrals back in March. These programs are set to expire in the coming months, which will test the banks and their struggling customers. Scotia revealed that 300,000 of its clients have applied for some sort of financial relief on the \$60 billion they collectively owe the bank.

On the international front, it has also been facing pressure. Scotiabank reported that it has processed two million applications for loan relief from its international customers.

Why markets reacted positively after earnings

Despite the brutal quarter, Scotiabank stock still shot up on the day of its Q2 earnings release. It was not alone. The **BMO Equal Weight Bank Index ETF**, which boasts exposure to Canada's Big Six banks, saw its shares increase 6.29% on the same day. Investors were encouraged that Scotiabank managed to beat analyst estimates.

Scotiabank CEO Brian Porter is still warning of tough times ahead. "I would expect Q3 to look very similar to what we experienced this quarter," he said on an analyst call. "The banking sector will be picking up the broken eggshells for a number of quarters." Shares of Scotiabank have still dropped 21% in 2020 at the time of this writing.

Should you buy Scotiabank stock today?

Shares of Scotiabank are still trading at the low end of its 52-week range. It is not too late to jump in on discounted bank stocks in this environment. This stock last possessed a favourable price-to-earnings ratio of 8.2 and a price-to-book value of one. Better yet, Scotiabank maintained its quarterly dividend payout of \$0.90 per share in May. This represents an attractive 6.4% yield.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Investing

Date

2025/08/24

Date Created

2020/05/27

Author

aocallaghan

default watermark