Bank of Nova Scotia (TSX:BNS): A Bargain at $56?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS), Canada's most international bank, took a huge hit to the chin amid the COVID-19 crisis, with the emerging markets acting as a major sore spot for a bank that's been on the retreat since late 2017. Even before the COVID-19 pandemic hit Bank of Nova Scotia's top and bottom line, the bank had more than its fair share of baggage. At the time of writing, BNS stock is down just over 33%, making it one of the "cheapest" names in the Big Six basket of Canadian bank stocks.

Indeed, the cheap stock became much cheaper this year. But with growing concerns over Bank of Nova Scotia's exposure to the vulnerable emerging markets, are the risks involved worth the seemingly low price of admission? Or is the bank to be avoided for its more resilient domestic peers?

Bank of Nova Scotia stock looks absurdly cheap at $56, but is it really a bargain?

At the time of writing, BNS stock trades at 1.08 times book value, which is considerably lower than the stock's five-year historical average price-to-book (P/B) multiple of 1.5. Indeed, the stock reeks of value here, with valuations that are the lowest they've been since the depths of the Great Financial Crisis.

While the dirt-cheap multiple and the swollen 6.4% dividend yield are the biggest reasons to prefer Scotiabank over its peers, I think it's a mistake to disregard the greater risks investors will bear with the name. Remember, just because a stock is cheap doesn't mean it's undervalued. And in the case of Bank of Nova Scotia, I don't think it's the best bank for your buck at this juncture, even though shares could have the most upside potential if COVID-19 were to be conquered quicker than most expect.

Bank of Nova Scotia: Having a look under the hood

Provisioning has been a major theme for the Canadian banks this year. Such provisions have taken a huge bite out of Bank of Nova Scotia's earnings numbers. For the fiscal third quarter, Bank of Nova

Scotia saw its adjusted diluted EPS numbers nosedive 45% year over year to $1.04. The brutal magnitude of the drop was far greater than the Street was expecting, exceeding many of the bank's Big Five peers considerably. Provisions came in at a staggering $2.2 billion, but the common equity tier one ratio improved modestly by 40 bps to 11.3% quarter over quarter.

While Bank of Nova Scotia is a far riskier play to bet on amid a worsening pandemic that stands to weigh more heavily on the emerging markets, the bank's capital ratio remains remarkably robust, and it'll likely continue to do so as the COVID-19 storm worsens. That said, I don't think Bank of Nova Scotia is the best bank to bet on given this pandemic could continue to hit Bank of Nova Scotia that much harder over the next year and potentially beyond.

Not to say Scotiabank is a sell at these depths, though. Today seems to be a great time to get into higher-growth emerging markets on the cheap. The bank may be feeling the COVID-19 impact harder than its more resilient peers, but it's by no means in any sort of trouble.

Foolish takeaway

If you seek a huge dividend and find your portfolio is light on stocks that could surge in a post-pandemic world, then sure, Bank of Nova Scotia is a great buy here. For everyone else who's looking to reduce COVID-19 risks, I'd say any one of the bank's bigger brothers looks to have a far superior value proposition at this juncture.

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Author
joefrenette