Buy Before Earnings: Scotiabank (TSX:BNS)

Description

Canada's Big Banks are gearing up for another earnings season to end 2020. Unfortunately, 2020 has been *anything* but normal. The banks started the year strong but tumbled along with the rest of the market in March as the COVID-19 pandemic forced shutdowns around the globe. Since then, the Big Banks have nearly clawed back those losses. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has not yet returned to its January levels. This does beg the question as to whether Scotiabank is a buy before earnings scheduled later this month.

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Let's take a look at Scotiabank and try to answer that question.

Results speak volumes, but don't answer any questions – here's why

Scotiabank's earnings report for Q4 is still a few weeks out. Until then, let's recap what the bank announced during the third fiscal of 2020. During that most recent quarter, earnings came in at $1,304. This was a significant drop over the $1,984 million reported in the same period last year. On a per-share basis, Scotiabank earned $1.03 per diluted share. In the same quarter last year, Scotiabank earned $1.50 per diluted share.

That 45% (or 31% per diluted share) drop was attributed primarily to the impact of the COVID-19 pandemic. The most significant impact was felt in the international segment, whereby net income came in 96% lower than the prior period. This is crucial because of the bank's international efforts, which are focused on the Pacific Alliance nations of Chile, Columbia, Mexico, and Peru. Latin America, like the rest of the world, was hard-hit by the pandemic, particularly during the summer months.

This followed the massive closures we saw in North America during the early spring. In other words, Latin America was hit by a coronavirus wave after Canada and the United States. This is not unlike a similar delay in spread that we saw between closures in Europe during the latter parts of the winter.

Fortunately, Latin American markets have steadily begun to reopen over the past few months, which should translate into improved results during the Q4 update in a few weeks. That focus on Latin America is a differentiating factor that Scotiabank has over its peers. The other Big Banks have prioritized expansion efforts into the U.S. market, which continues to grapple with the pandemic, but has managed to re-open much of its economy.

This explains the current weakness behind Scotiabank, which is still down by double digits in 2020.

Here's what we can expect, and what it means

There are two simultaneous efforts that prospective investors should note. First, let's look past the pandemic. Just this week we've heard encouraging news about a potential vaccine with an impressive success rate. To put it another way, the pandemic *will* end. We will likely not be back to our pre-2020 normal for at least another year, and elements of our new normal will bleed into our post-pandemic lives.

This leads to my second point – that there *is* a new normal. Businesses continue to re-open with safe social-distancing measures in place. This will continue to bridge the gap in earnings we saw in the last quarter.

For investors, this means that we can expect the market to stage a recovery and a welcome return to growth. In the case of Scotiabank, this means that the current double-digit discount on the stock price exposes an ideal opportunity to buy before earnings. That discount also means that the bank's quarterly dividend has swelled to an impressive yield north of 6%.

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Should you buy before earnings?

No stock is without risk. That risk is well documented and reflected in the current discounted price of Scotiabank. What is less obvious is that Scotiabank's slower recovery over its peers stems from its Latin American operations. For the long-term investor, now is a great time to buy before earnings.

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