



## Today's Top Buy: Scotiabank

### Description

One of my top picks for some time has been **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). This bank is one of the best of its peers, which says a lot due to the quality of Canadian banks right now.

Let's look at Scotiabank's recent earnings release and why this stock is topping my list of banks right now.

### Earnings very strong

Last Tuesday, Scotiabank reported earnings. These earnings were well received by the market, and shares of this stock are now up more than 6% since the release.

This move was one of the largest of its peers, and indicates to me the strength of Scotiabank's underlying businesses.

Scotiabank reported a Q1 profit of \$1.86 per share compared to analyst estimates of only \$1.53 a share. On an annualized basis, this would adjust Scotiabank's price-earnings multiple down toward 10 times earnings. Indeed, that's dirt cheap for a bank of Scotiabank's size and quality.

These earnings were mostly driven by lower provisions for loan losses than in the past. As more of these provisions continue to be removed in the coming quarters, investors are likely to see outsized earnings growth. This is bullish in the short term for investors seeking high-yielding stocks, particularly with bond rates so low.

The fact that Scotiabank's earnings are back above pre-pandemic levels has allowed investors to breathe a sigh of relief. However, investors should remain vigilant with all stocks in their portfolio. It appears Scotiabank's management team is remaining cautious right now, and so should we.

### Risks do exist with Scotiabank — and all banks, for that matter

Scotiabank's management team was quick to point out that the economic pain stemming from the pandemic may not be over. Slower vaccination rates in Canada and risks of virus variants spiking new cases could derail some of the progress the company has made in recent quarters.

Since banks tend to be more economically sensitive than other stocks, these risks are more pronounced with Scotiabank. That said, Scotiabank's [international operations](#) do provide a degree of diversification and risk management on this front. The fact that Scotiabank is a leader in providing a diversified portfolio of assets is beneficial to shareholders at a time like this.

However, I think investors need to be wary of these risks across all stocks in their portfolio. Scotiabank may be more heavily exposed to these risks. However, these are more market-related risks that are likely to impact all stocks in the future. I'd recommend keeping a broadly diversified portfolio to spread out such risk. That said, holding long-term winners like Scotiabank over the long haul is never a bad strategy.

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1. NYSE:BNS (The Bank of Nova Scotia)
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## Date

2025/07/19

## Date Created

2021/03/02

## Author

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