



Is Bank of Nova Scotia Stock a Buy Right Now?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) reported strong results for the most recent quarter. Investors who missed the rally in the share price in recent months want to know if this is a good time to buy Bank of Nova Scotia stock.

Earnings

Bank of Nova Scotia generated [fiscal Q2 2021](#) adjusted net earnings of \$2.47 billion and earnings per share of \$1.90 — up 81% and 83%, respectively, from the same period last year. Return on equity was 14.9% compared to 8.2%. Bank of Nova Scotia finished the quarter with a CET1 capital ratio of 12.3%. This is well above the minimum requirements and indicates the bank is sitting on excess capital that it built up to ride out the pandemic.

The Canadian banking division had a strong quarter compared to fiscal Q2 2020. Adjusted net income was \$931 million — up 94%. International banking net income rose by \$247 million, or 143%, to \$420 million in the quarter on a year-over-year basis. Bank of Nova Scotia has a large presence in the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia.

Latin America was hit hard by the pandemic, and it will take some time for the countries to rebound. That said, rising oil and copper prices will speed up the recovery in these economies, and Bank of Nova Scotia should benefit.

Longer term, the Pacific Alliance market of more than 230 million people offers attractive growth potential. Banking penetration remains low, and an expanding middle class should drive demand for loans and investment products. Investors could see the bank use some of its extra cash to make additional strategic acquisitions in the region.

Dividends

Bank of Nova Scotia has a strong track record of dividend growth. The government forced all the

Canadian banks to put dividend increases on hold during the pandemic. Now that the economy is starting to recover, and the banks have weathered the storm in better shape than expected, Bank of Nova Scotia and its peers should get the green light to raise dividends again later this year or in early 2022.

Given the size of the excess capital and the strong profitability of the bank, investors should see a wave of generous [dividend](#) increases from Bank of Nova Scotia when distribution hikes restart.

Investors who buy the stock at the current price near \$81 per share can pick up a 4.4% dividend yield.

Risks

Government aid programs will end this year. This could trigger an increase in loan and mortgage defaults from businesses and homeowners who managed to pay their bills with the help of the pandemic assistance, but have not seen their income levels rebound due to lost revenue or extended unemployment. Bank of Nova Scotia can absorb the hit, but there might be a few weak quarters once the economy is forced to stand on its own feet.

Over the medium term, interest rates are also a concern. High inflation could force the Bank of Canada and the Federal Reserve to hike interest rates sooner than expected, pushing up rates on variable-rate mortgages. The bond market could tank on the expectation or announcement of higher interest rates and that would drive up the rates charged on fixed-rate mortgages.

Homeowners who see a large jump in rates when the need to renew the mortgage could be forced to sell. If enough people find themselves in this situation, the housing market could go through a meaningful correction. Bank of Nova Scotia finished fiscal Q2 2021 with \$257 billion in mortgages on the books.

Should you buy the stock?

Bank of Nova Scotia isn't a cheap stock right now, but the bank is a good buy-and-hold pick for dividend investors. You get a great dividend yield and the next few distribution hikes will likely be generous, given the size of the company's cash hoard. If you like the stock, I would take a half position now and add to the holding on pullbacks.

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