



BNS Stock: Is Bank of Nova Scotia the Best Canadian Bank Stock to Buy Now?

Description

The stock market pullback is giving investors a chance to buy top Canadian bank stocks on a dip. **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) lagged its peers in the post-crash rally and investors are wondering if BNS stock is a good buy today.

Canadian business

Bank of Nova Scotia's Canadian operations made it through the worst part of the pandemic in better shape than many analysts initially expected when the country first went into lockdown.

Why?

Job losses and closed businesses triggered fears of a potential rout in the housing market. Canada Mortgage and Housing Corporation (CMHC) predicted [house prices](#) would fall 9-18% as a result of the economic crash. More than a year later, the Canadian housing market has not only held its ground, it is hotter than ever and prices have surged.

Extensive government support for businesses and homeowners helped avoid the housing crash everyone anticipated. At the same time, a plunge in borrowing costs enabled new buyers to get into the market. Banks also provided mortgage deferrals to existing customers.

Now that the Canadian economy is recovering the risk of a major housing crash is greatly reduced. Bank of Nova Scotia has benefitted from the surge in the housing market and enjoyed a significant inflow of deposits. With restaurants, cinemas, and bars closed people piled up entertainment money in their accounts. The banks offer little or no return on these deposits but can lend the money out at nice margins.

The positive impact of the aid programs is already showing up in the numbers. In fiscal [Q2 2021](#) Bank of Nova Scotia reported a net income of \$2.45 billion. Return on equity came in at a healthy 14.8%. The Canadian banking, wealth management, and capital markets groups all performed well.

International operations

Bank of Nova Scotia has invested billions of dollars over the past decade to build a substantial presence in Mexico, Peru, Chile, and Colombia.

The four countries form the core of the Pacific Alliance trade bloc that is home to more than 230 million people. Bank penetration is low in these countries, offering Bank of Nova Scotia an opportunity to tap demand for loans and investment products as the middle class expands.

The pandemic hit Latin America hard and it will take time for these countries to bounce back. That said, Bank of Nova Scotia's international banking division still generated earnings of \$429 million in fiscal Q2 2021. As the global economic rebound kicks into gear and vaccination rates rise, the Pacific Alliance economies should recover.

Dividends

Bank of Nova Scotia finished the quarter with a CET1 ratio of 12.3%. This means the bank is sitting on significant excess capital. The normal requirement for Canadian banks is a CET1 ratio of 9%.

As soon as the Canadian banks get the go-ahead to resume [dividend](#) hikes Bank of Nova Scotia will likely use part of the cash hoard to boost the payout. Share buybacks and new acquisitions could also be on the table.

The current distribution provides a dividend yield of 4.6%.

Is this the time to buy BNS stock?

At the time of writing, the Bank of Nova Scotia trades near \$77 per share. That's well above the lows witnessed in 2020, but off the recent high of around \$82. The stock looks attractive at this level and you get an above-average yield with generous distribution hikes likely on the way in the next few years.

Ongoing volatility should be expected, but buy-and-hold investors should be comfortable adding Bank of Nova Scotia stock to their portfolios today.

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