Bank of Nova Scotia: Should You Buy or Sell This Stock?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is trailing four of its five large Canadian banking peers this year, and investors wonder if this is a good time to add BNS stock to their portfolios.

Pandemic recovery and risks

At the time of writing, Bank of Nova Scotia's share price is up 15% in 2021. That's below the returns of **Royal Bank** (24%), **Bank of Montreal** (33%), **CIBC** (35%), and **National Bank** (37%). Only **TD**, with a YTD stock appreciation of just under 15%, trails BNS so far in 2021.

Bank of Nova Scotia's underperformance is likely connected to market concerns about the international business. The company has a large presence in Latin America, with a primary focus on Mexico, Peru, Chile, and Colombia. These four countries make up the Pacific Alliance trade bloc that allows the free movement of goods, capital, and labour. The pandemic hit Latin America hard, and it will likely take longer for the region to recover than in Canada or the United States, where the other Canadian banks have the bulk of their operations. Political uncertainty is always a risk in the Pacific Alliance member countries, and economic shocks can take a heavy toll, as these countries rely on strong oil and base metals prices for a good chunk of their economic activity.

The spread of the Delta variant and other new strains of COVID-19 could delay the full recovery in Bank of Nova Scotia's international business.

Earnings

Bank of Nova Scotia reported solid fiscal Q3 2021 results, despite the ongoing pandemic challenges. The bank earned adjusted net income of $2.56 billion in the quarter, up 93% compared to Q3 2020.

Canadian banking, wealth management, and capital markets activities all performed well, as provisions for credit losses fell, home sales across Canada continued to be robust, and assets undermanagement increased.

The bank finished the quarter with a CET1 ratio of 12.2%. This means Bank of Nova Scotia has adequate capital to ride out the pandemic. In fact, the company is sitting on excess cash that will need to be deployed.

Bank of Nova Scotia set aside billions in provisions to cover potential pandemic loan losses. The strong government aid programs in Canada have helped avoid the anticipated wave of loan defaults by businesses and homeowners. Some pain is expected when the support payments end, but Bank of Nova Scotia is in good shape to absorb the hit.

Opportunity

The international division generated Q3 2021 earnings of $493 million, so the business is still very profitable. Once the global economy starts to ramp up again and vaccination rates improve, the international business should rebound nicely.

The long-term prospects for the Pacific Alliance countries are worth considering. The combined market is home to more than 230 million consumers who are underbanked. Bank of Nova Scotia is in a good position to benefit as the middle class expands and people demand more loans and investment products.

Dividend

At the time of writing, Bank of Nova Scotia trades near $78 per share and offers a 4.6% dividend yield. That’s a pretty good return, and investors should see a generous dividend increase as soon as the government gives the Canadian banks the thumbs up to restart payout hikes.

Should you buy Bank of Nova Scotia stock now?

Bank of Nova Scotia looks attractive at the current share price, and the above-average dividend yield means you get paid well to wait for the stock to move higher. If you have some cash to put to work in a dividend-focused portfolio, this stock deserves to be on your radar right now.

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