



Is it Time to Buy Bank of Nova Scotia Stock?

Description

The share price of **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is down 10% from the 2022 high. Investors who missed the big rally off the 2020 lows are wondering if this is a good time to buy BNS stock for their [TFSA or RRSP](#) portfolios.

Earnings

Bank of Nova Scotia generated solid fiscal 2021 results, and the fiscal Q1 2022 numbers indicate an extension of the pandemic recovery.

Net income for Q1 2022 came in at \$2.74 billion compared to \$2.4 billion in the same period last year. Adjusted net income for Q1 was \$2.15 per share, up from \$1.88 per share in the first quarter of 2021.

Adjusted return on equity jumped to 15.9% from 14.4%.

Canadian Banking delivered adjusted earnings of \$1.2 billion in the first three months of fiscal Q1 2022, marking a 32% year-over-year increase.

International Banking saw adjusted earnings come in at \$552 million, up 38% from the previous year. Mortgage growth and commercial loan growth helped drive the gains. Bank of Nova Scotia also reported lower provisions for credit losses in the international division.

Bank of Nova Scotia has a large presence the Pacific Alliance countries of Peru, Chile, Mexico, and Colombia. The pandemic hit the international business quite hard, but the worst appears to be over, and these countries are benefitting from the rebound in energy and metal prices.

Bank of Nova Scotia continues to see attractive growth potential in the region. The bank recently announced a \$1.6 billion deal to increase its stake in Scotia Bank Chile to 99.8%.

Bank of Nova finished fiscal Q1 2022 with a CET1 ratio of 12%. This means the bank has a strong cash position to support growth while providing investors with capital returns.

Dividends and share buybacks

Bank of Nova Scotia raised its dividend by 11% for fiscal 2022 when it announced the 2021 results. The payout provides an annualized yield of 4.7% at the time of writing.

Bank of Nova Scotia is using some of its excess cash to buy back stock. The company recently received permission to raise its share repurchases to 36 million from 24 million under the current normal course issuer bid. This represents about 3% of the outstanding common stock.

Investors should see another generous dividend increase for fiscal 2023.

Risks

The recent inversion of bond yields in the United States is one reason for ongoing weakness in bank stocks. When short-term bond yields move above long-term yields, the event often predicts a recession is on the way. The yield on the U.S. five-year bond recently topped the yield on the 30-year treasury.

The inversion can put pressure on bank net interest margins as well as signal a downturn in economic activity.

Investors are also watching the impact of rising mortgage rates on the Canadian housing market. A prolonged and sharp rise in mortgage rates could trigger a correction in house prices if existing owners are not able to make the increased payments and are forced to sell their properties.

Should you buy BNS stock now?

Further downside could be on the way in the near term, but Bank of Nova Scotia stock is starting to look attractive for buy-and-hold investors. You get paid a great dividend and the distribution should continue to grow in the coming years. If you have some cash to put to work in a TFSA or RRSP portfolio, it might be worthwhile to start adding Bank of Nova Scotia to your portfolio on any additional weakness.

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