Is Bank of Nova Scotia (TSX:BNS) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good value stock, sometimes it is better to buy the stock of a great company at an okayish price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make the best buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Bank of Nova Scotia

My value stock pick this week is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), one of Canada's oldest Big Five banks. The TSX banking sector is highly monopolistic, and BNS enjoys little competition, strong margins, and ever-increasing earnings.

BNS stock is also a favourite among dividend-growth investors. The stock pays a dividend of $4 per share for a 4.70% yield and has consistently paid and increased dividends for decades, with a very sustainable payout ratio of 46.37%.

Valuation

BNS is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price. This is useful for giving investors a sense of the price range.

Currently, BNS is extending gains since Monday and is currently trading at 85.16, which is near the 52-week high of 95. In the current fiscal quarter, BNS's 52-week low is 75.84.

BNS current has a market cap of $110.61B with approximately 38.81 billion shares outstanding. This gives it an an enterprise value of $269.19B with a enterprise value-to-EBITDA ratio of 12.22, which is similar to sector peers.

For the past 12 months, the price-to-earnings ratio of BNS was 11.49, with a price-to-free cash flow ratio of -8.34, price-to-book ratio of 1.56, price-to-sales ratio of 3.66, and book value per share of approximately 58.27. These metrics suggest that BNS may be somewhat undervalued.

BNS has a Graham number of 101.91 for the last 12 months — a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in, which is the case here with BNS, giving investors a good margin of safety.

Is it a buy?

BNS looks undervalued right now, and possesses some excellent fundamentals, a great management team, and a solid economic moat. Long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won't matter as much if BNS continues its strong track record of growth and profitability. Consistently buying shares of BNS, especially if the market corrects, can be a great way to lock in a low cost basis.

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Date
2025/08/16
Date Created
2022/04/21
Author
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