



Bank of Nova Scotia (TSX:BNS) Hikes Dividend: Time to Buy the Stock?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) just reported solid fiscal Q2 2022 results and announced another increase to the dividend. Investors are now wondering if the recent pullback in the stock is overdone, and if Bank of Nova Scotia deserves to be on their [TFSA or RRSP](#) buy list.

Bank of Nova Scotia Q2 2022 earnings

Bank of Nova Scotia surprised analysts with the strength of its fiscal Q2 2022 results. The bank generated adjusted net income of \$2.765 billion in the three months compared to \$2.475 billion in the same period last year. Diluted earnings per share came in at \$2.18 compared to \$1.90 in Q2 2021. Return on equity jumped to 16.4% from 14.9%.

Canadian banking earnings led the way with 27% growth driven by strong residential mortgage sales, commercial loan growth, good fee income, and reduced provisions for credit losses. Residential mortgages increased by 16% and business loans rose 19% compared to Q2 last year.

International banking activities showed they continue to recover from the pandemic hit. Bank of Nova Scotia has extensive operations in Mexico, Peru, Chile, and Colombia. The four members of the Pacific Alliance trade bloc had a rough time in the past two years, but things are improving with the rebound in oil and base metals prices. Adjusted earnings in the group came in at \$613 million in the quarter compared to \$411 million in fiscal Q2 last year. Commercial loans increased 10%, and mortgages rose by 14% year over year.

The global wealth management group also had a good quarter with adjusted net income rising 9% to \$413 million.

Bank of Nova Scotia's capital markets division, referred to as Global Banking and Markets in the report, was the only laggard in the quarter with year-over-year net income down 6%.

The bank finished fiscal Q2 with a strong capital position. The CET1 ratio came in at 11.6%. That's down from the previous quarter due to aggressive share buybacks and the investment the company

made to increase its stake in Scotiabank Chile.

Overall, Bank of Nova Scotia delivered a strong performance. Investors pushed the stock up by 3.5% on the news.

Dividends

Bank of Nova Scotia announced a 3% increase to the dividend. This comes on top of the 11% hike the company gave investors in fiscal Q1 2022.

Risks

Mortgage growth will likely slow in the coming months, as rising mortgage rates keep some buyers out of the market. House prices have already started to dip in some key cities. This could keep more buyers on the sidelines, as they anticipate additional price contraction. At the same time, owners of multiple properties could start to flood the market with listings on the hope of getting out while prices are still near record levels and before they are forced to renew the loans at higher rates.

As the Bank of Canada and the U.S. Federal Reserve increase interest rates in an attempt to tame inflation they might trigger an economic downturn. If the slump is significant, businesses will reduce investment and cut borrowing to ride out the recession.

Should you buy Bank of Nova Scotia stock now?

Bank of Nova Scotia trades near \$84 per share at the time of writing. That's up from the recent low near \$80, but still down significantly from the 2022 high around \$95 per share. At roughly 10.5 times trailing 12-month earnings the stock still looks cheap, and investors can get a 4.9% dividend yield.

Volatility in the bank sector should be expected in the coming months, so I wouldn't back up the truck. However, buy-and-hold income investors should feel comfortable owning Bank of Nova Scotia stock at this level.

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