1 Big Bank Stock That Just Smashed Earnings Expectations

Description

The recent earnings releases of the Big Six banks in Canada was another display of financial strength and stability. Higher interest rates didn't materially impact on loan growth yet, although some industry analysts believe the pace will slow down in the coming quarters.

Investors were treated to a dividend bonanza similar to the earnings season in late 2021. Only **Toronto-Dominion Bank** deferred a dividend bump, but it should come soon. The financial results of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) were mighty impressive, as it smashed expectations.

The country's third-largest lender should be among the top-of-mind investment choices of dividend investors going forward. More importantly, BNS gave newbies or beginners a compelling reason to start investing.

Higher earnings

Instead of restraining mortgage loans, higher interest rates pushed Scotiabank's earnings up in Q2 fiscal 2022. In the quarter ended April 30, 2022, loans and net interest income rose 7% and 13% versus Q2 fiscal 2021. Notably, residential mortgage and business loans climbed 16% and 19% year over year.

The net income of the $102.85 billion bank reached $2.74 billion, which represents an 11.85% jump from the same quarter in the prior fiscal year. Management also reported higher adjusted return of equity of 16.4% versus 14.9% from a year ago. Clearly, Scotiabank benefits from the current trends in the central bank's key interest rate and the real estate market.

Its president and CEO Brian Porter said, "We are pleased with the very strong EPS growth of 15% and a return on equity of 16.4%. Continued loan growth of 13%, an improving net interest margin, strong customer balance sheets, combined with prudent expense management, positions the Bank well to grow its earnings."

Health of Canadian consumers

According to Porter, the bank is very confident in the health of the Canadian consumer. Phil Thomas, Scotiabank's chief risk officer, said that despite the macroeconomic headwinds, the loan portfolio remains healthy. He noted the improvement in credit scores over the past two years.

Porter added, "Given the macroeconomic environment, we run stress tests that would have more harsh inputs today than we would have possibly a year ago." Robust mortgage and commercial loan growth, lower provision for credit losses (PCL), and strong fee income are why earnings from its Canadian Banking segment grew 27% compared to the prior year.

Income for beginners

Because of its killer earnings and increased interest margin in Q2 fiscal 2022, Scotiabank announced a 3% increase its quarterly dividend. The financial stock trades at $85.30 per share and yields nearly 5%. Its 4.83% dividend yield is the highest among the Big Six banks.

The payout should be rock solid, given Scotiabank's dividend track record of 19 decades (190 years). At the current dividend yield, a beginner can earn $241.50 every quarter on an investment of $20,000. The passive income is tax free if you hold the bank stock in a Tax-Free Savings Account.

Strong long-term results

Scotiabank is a buy-and-hold asset for young and old stock investors. The bank is highly confident that its diversified business model and prudent risk-management approach will yield strong long-term results for all stakeholders, especially through uncertain times.

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