Scotiabank Stock: A Dividend Stock Worth Holding for the Next Decade

Description

A roller-coaster ride in the shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) continues in 2022. After posting 5.4% gains in May, Scotiabank stock is on its path to ending June in the red, as it currently trades with 6.5% month-to-date losses. With this, BNS stock is down by 10.5% on a year-to-date basis against 9.6% losses in the **TSX Composite Index**. Before I explain why I find its stock worth considering for long-term dividend investors, let's take a closer look at some key factors affecting its stock price movement since the pandemic began.

Scotiabank's post-pandemic recovery

In 2020, the COVID-related shutdowns led to big operational challenges for the banking sector. Despite these challenges, Scotiabank's repositioning efforts helped the bank maintain operational resilience during the pandemic phase. As a result, its total revenue in its fiscal year 2020 (ended in October 2020) continued to grow positively to around $31.3 billion.

While the strong performance of its capital market and global wealth management segment boosted its earnings, the pandemic still hurt its bottom line due mainly to higher provision for credit losses. As a result, its adjusted earnings that fiscal year fell by about 25% from a year ago to $5.36 per share. Its lower earnings and high loan loss provisions drove BNS stock down by 6.2% in the calendar year 2020.

Nonetheless, its earnings growth trend significantly improved in its fiscal year 2021, despite facing new COVID variants-driven challenges. A notable performance recovery in its Canadian and international banking segments played a key role in its earnings recovery. As a result, Scotiabank's adjusted earnings increased by 46.8% year over year in fiscal 2021 to $7.87 per share — also much stronger than its earnings in the pre-pandemic fiscal year. This financial recovery helped BNS stock rally, as it ended the calendar year 2021 with solid 30% gains.

Why BNS stock is falling in June

While a positive movement in Scotiabank stock continued at the start of the calendar year 2022, the recent macro level concerns have driven the stock downward. The U.S. inflation numbers recently climbed to their highest level in over 40 years — forcing the Federal Reserve to make aggressive monetary policy moves. Notably, the Fed hiked the key interest rate by 75 basis points last week, marking the biggest rate hike since 1994. The aggressive hikes have ignited fears about a potential recession in the near term — hurting investors' sentiments and driving a broader market selloff. These recession risks could be blamed for BNS stock's downward movement in June.

A stock worth buying for the next decade

At the current market price, BNS stock has an attractive dividend yield of 5.1%. Its well-diversified business model and consistent earnings growth allow Scotiabank to keep rewarding its investors with handsome dividends, even in difficult economic times. In the last five fiscal years, its dividend per share has gone up by about 25%.

Overall, a higher interest rate environment tends to benefit the banking sector. While recession fears have triggered a selloff in BNS stock lately, rising interest rates in Canada and the U.S. will likely boost Scotiabank's interest income and margin in the coming quarters, which should help the stock recover. That's why long-term income investors may want to consider buying it on a dip right now and hold it for the long term.

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