Bank of Nova Scotia: Time to Buy This Canadian Bank Stock?

Description

The market correction is giving value investors an opportunity to buy great TSX dividend stocks at cheap prices.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades for less than $71.50 per share at the time of writing compared to $95 at the peak in February. The steep decline occurred over the past six months, as investors have become more concerned about recession risks.

The Bank of Canada and the U.S. Federal Reserve are raising interest rates in an attempt to cool off the economy and bring inflation back down to the 2-3% target range. Inflation dipped a bit in July but remains high (7.6% in Canada and 8.5% in the United States), and it will take time for price growth to slow down, so households are taking a hit from higher expenses on food and fuel while facing the prospect of much higher mortgage payments.

Opportunity

Loan defaults are expected to rise, and the banks are setting more cash aside for potential credit losses. However, Bank of Nova Scotia and its peers remain very profitable and have strong capital positions to ride out the downturn.

Bank of Nova Scotia reported fiscal third-quarter (Q3) 2022 adjusted net income of $2.61 billion compared to $2.56 billion in the same period last year. Return on equity remained solid at 15.4% compared to 15.1% in fiscal Q3 2021.

Rising interest rates can trigger increased loan defaults, but they also tend to boost net interest margins for the banks. This started to show up in the most recent quarter at Bank of Nova Scotia and should continue, as rates increase in the coming months.

Bank of Nova Scotia’s Canadian banking division saw net earnings jump by 12%, supported by 14% loan growth and the expansion of net interest margins. International banking earnings surged 28% compared to Q3 2021 — also supported by higher net interest margins and 12% loan growth.

Global wealth management and capital markets operations had a tough time, as stock markets plunged, and deal activity slowed due to recession concerns. These groups will likely underperform in the near term but are still generating strong profits.

Bank of Nova Scotia finished Q3 with a common equity tier one (CET1) ratio of 11.4%. This is a measure of the capital the company has on hand to navigate shocks. Canadian banks are required to have a CET1 ratio of 10.5%, so Bank of Nova Scotia is sitting on a healthy pile of excess cash that can be used for acquisitions, share buybacks, or dividend payments.

Dividends

Bank of Nova Scotia raised the dividend by 11% near the end of 2021 and increased the payout by another 3% when the company reported the fiscal Q2 2022 results. Management also increased the share-buyback target by 50% to 36 million shares in an earlier announcement. These decisions indicate the bank is comfortable with the revenue and profit outlook, even in the current era of economic uncertainty.

The dividend should continue to grow at a steady pace. Investors who buy Bank of Nova Scotia stock at the current price can get a 5.75% dividend yield.

The bottom line on top value stocks to buy now

Volatility is expected to continue in the coming weeks and months, so investors should be prepared to ride out additional weakness. However, Bank of Nova Scotia stock now looks oversold, and you get paid well to wait for the rebound. If you have some cash to put to work in a Tax-Free Savings Account or Registered Retirement Savings Plan, this stock deserves to be on your radar.

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