



## Bank of Nova Scotia Stock: Should You Buy Now?

### Description

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) recently dropped to its lowest price since December 2020. Investors are wondering if BNS stock is now [undervalued](#) and good to buy for a Tax-Free Savings Account (TFSA) focused on passive income or a self-directed [Registered Retirement Savings Plan \(RRSP\)](#) targeting total returns.

### Leadership change

Bank of Nova Scotia just announced its chief executive officer (CEO), Brian Porter, will retire at the start of next year after nearly a decade at the helm of Canada's third-largest bank. The company also announced that it will turn to an outsider to fill the CEO position. Bank leadership transitions in Canada typically come from inside the firm, or at least from another financial institution. In this case, the new CEO, Scott Thomson, is leaving his position as CEO of **Finning** to take the job. Finning is a Vancouver-based dealer of **Caterpillar** heavy equipment.

Thomson is familiar with Bank of Nova Scotia as a member of its board. The initial market reaction to the news, however, was negative. BNS stock dropped more than 3% to \$67 per share on the announcement.

### Outlook

Bank of Nova Scotia underperformed its Canadian peers over the past decade. The bank has a large international division focused primarily on Mexico, Peru, Chile, and Colombia. The four countries make up the core of the Pacific Alliance trade bloc and are home to a combined market of more than 230 million people.

Risks are higher in emerging markets. Geopolitical turmoil and civil unrest have a tendency to pop up and can make investors nervous. The pandemic hit the four countries quite hard and their reliance on high commodity prices, particularly oil and copper, make their economic positions more volatile.

On the positive side, the growth potential is significant for Bank of Nova Scotia in these markets. Bank services penetration is at or below 50%. As the middle class expands, demand for loans and investment products should rise.

Investors will want to see if the new CEO will maintain the focus on Latin America or exit the region in favour of the U.S. market, where the other large Canadian banks are making big bets.

## Earnings

Bank of Nova Scotia remains very profitable. Net income for the first three quarters of fiscal 2022 came in at \$8.1 billion compared to \$7.4 billion in the same period last year. Bank of Nova Scotia finished the fiscal third quarter (Q3) with a common equity tier-one (CET1) ratio of 11.4%. This is a measure of the bank's ability to ride out tough times. The government requires the banks to have a CET1 ratio of 10.5%, so Bank of Nova Scotia is sitting on excess cash. The board announced a 50% increase in the share-purchase plan earlier this year as a strategy for deploying some of the extra funds.

## Dividends

Bank of Nova Scotia raised the dividend by 11% late last year and gave investors another 3% increase when the bank announced fiscal Q2 2022 results. This suggests the board is comfortable with the earnings outlook, even with a potential recession on the way.

At the current share price, investors can get a 6.1% dividend yield.

## Is Bank of Nova Scotia a good stock to buy?

Additional near-term volatility should be expected, but BNS stock looks oversold right now, trading at 8.1 times trailing 12-month earnings. The dividend should be safe, so you get paid well to wait for the rebound. Bank of Nova Scotia traded as high as \$95 earlier this year. That's more than 40% upside potential.

If you have some cash to put to work in a TFSA or RRSP, this stock deserves to be on your radar.

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