



Bank of Nova Scotia Stock Rose 6.5% in November: Is the Stock a Buy Today?

Description

Bank of Nova Scotia ([TSX:BNS](#)) has picked up a nice tailwind in recent weeks, but the stock is still down considerably for the year. Investors who missed the bounce are wondering if BNS stock is still [undervalued](#) and good to buy for a portfolio focused on passive income and total returns.

Bank of Nova Scotia overview

Bank of Nova Scotia is currently Canada's fourth-largest bank with a market capitalization of more than \$81.5 billion. The company is unique among its peers due to the large international business focused on Latin America. Bank of Nova Scotia invested billions of dollars over the past three decades to acquire banks in Mexico, Peru, Chile, and Colombia. These countries form the core of the Pacific Alliance trade bloc that enables the free movement of goods, labour, and capital. Combined, the countries are home to more than 230 million consumers with low banking-service coverage.

This provides Bank of Nova Scotia with good long-term growth opportunities. Rising middle-class income should drive higher demand for loans and investment products. On the commercial banking side, businesses that expand across the Pacific Alliance markets need a variety of cash-management services.

Investors, however, might be concerned that the Latin American operations carry too much geopolitical and economic risk. Political uncertainty is always a concern, and the four countries are heavily reliant on oil and copper prices for revenue, so they are exposed to volatility in commodity markets.

Bank of Nova Scotia's share price is currently \$68.50. That's down nearly 25% from the start of the year and about 18% lower than where it was five years ago.

Bank of Nova Scotia earnings

The fiscal 2022 results paint a rosier picture than what the stock price indicates. Bank of Nova Scotia generated adjusted net income of \$10.75 billion in fiscal 2022 compared to \$10.17 billion in the same

period last year. Return on equity came in at a solid 15.6%, up from 15% in 2021.

The international banking division had a strong year, reporting a 32% surge in adjusted earnings to \$2.45 billion.

Dividends

Bank of Nova Scotia has paid a dividend since 1833. The board increased the payout by 3% when the bank announced the results for the second quarter (Q2) of 2022. This was on top of the 11% increase announced late last year. At the time of writing, the dividend provides an annualized yield of 6%.

Risks

Bank of Nova Scotia's large exposure to Latin America potentially makes it a riskier bet than its peers. Pundits are concerned that a global recession is on the way in 2023 or 2024, and that emerging markets could be in for a rough ride. If things get really ugly, Bank of Nova Scotia's international group could take a big hit, as it did during the pandemic.

In Canada, investors are also watching the falling housing market. Canadian households are carrying large debt loads, and a steep economic decline could lead to job losses and a surge in loan defaults. Bank of Nova Scotia, like its Canadian peers, has a large portfolio of Canadian residential mortgages. If house prices collapse, [bank stocks](#) could suffer.

For the moment, economists are predicting a short and mild economic downturn in Canada in 2023.

Should you buy Bank of Nova Scotia stock now?

Ongoing volatility should be expected, but the stock looks undervalued today at just 8.5 times trailing 12-month earnings. The dividend should be safe, and you get paid a decent yield to wait for a rebound. Contrarian investors seeking passive income and a shot at decent capital gains might want to consider adding BNS stock to their portfolios while it remains out of favour.

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