Is BNS Stock a Buy in December 2022?

Description

Dividend stocks like **Bank of Nova Scotia** (TSX:BNS) are one of the best ways to invest your money in Canada. The big bank pays out eligible dividends that are favourably taxed in non-registered accounts. Canadians should take advantage of the opportunity to increase their favourably taxed income.

Interest income, including from Guaranteed Investment Certificates (GICs) and bonds, earned in your non-registered accounts are taxed like your job's income — at your marginal tax rate. So, let's say you're a B.C. resident earning $120,100 a year. Your marginal tax rate would be 40.70%. Any additional interest income you earn up till $155,625 this year would be taxed at that rate. However, if you instead received additional income from eligible Canadian dividends, the tax rate on those dividends would only be 18.88%.

No matter which tax bracket you're at, eligible Canadian dividends are typically taxed at a lower rate. Therefore, you should highly consider buying dividend stocks like BNS stock when they trade at attractive valuations. Currently, one-year GICs offer a risk-free return of +5%. You can get higher passive income — a juicy yield of about 6.3% — from BNS stock. But what's the catch?

What's pressuring BNS stock?

Year to date, BNS stock has lost about 27% of its value.

BNS stock is a riskier investment than GICs that offer principal protection. You can expect to get more from the bank stock in terms of risk and return: volatility, bigger income, and potentially higher returns.

Theoretically, stocks can go to zero, meaning you can lose your entire investment. However, there's a very low chance of that happening for the big Canadian bank stock, which is sufficiently capitalized and has an A+ S&P credit rating.

Michael Sprung from Sprung investment management summed up the bank stock on *BNN* recently:

> "It has underperformed the other banks. There is some concern over the international part of the business and large exposure to South America. Its sensitivity to changing interest rates is a little slow compared to others. Also there have been significant changes in management including the CEO who is from Finning, although he has been a director of BNS for a period of time. It is an excellent buy at these levels and has a 6% yield so wait for a recovery."

To elaborate, emerging markets like South America are riskier geographies to invest in. Slower sensitivity to changing interest rates prevents the bank from capitalizing on higher net interest margins — at least not as high as the industry average. The chief executive officer change creates some uncertainty as well.

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From a valuation standpoint, Bank of Nova Scotia stock is cheap. At $65.50 per share at writing, it trades at below eight times earnings. This is a substantial discount of 32% from its long-term normal valuation.

You'll notice that from the analyst consensus 12-month price target of $78.58, the TSX stock trades at a discount of only 16%. That's because the macro environment is gloomy with high inflation, rising interest rates, and an expected recession to occur next year.

So, it's critical for investors to have a long-term investment horizon of at least three to five years to improve their chances of getting solid returns from BNS stock. It is also a good passive-income idea, as it pays handsomely for your patience.

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