



Is BNS Stock a Buy in January 2023?

Description

Investors with some cash to put to work in a Tax-Free Savings Account (TFSA) or a self-directed Registered Retirement Savings Plan (RRSP) are wondering which Canadian stocks might be good picks for 2023 after the 2022 [market correction](#). Canadian [bank stocks](#) are typically popular picks for a retirement fund, and the group took a hit last year. Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#)), which lost more than a quarter of its value in 2022 and now offers an attractive dividend yield.

Bank of Nova Scotia overview

Bank of Nova Scotia is currently Canada's fourth-largest bank with a market capitalization of \$79 billion. The bank slipped one spot in the ranks based on this metric last year.

Bank of Nova Scotia is unique among its peers due to the large international operations. Mexico, Peru, Colombia, and Chile are the main markets and the four countries make up the core of the Pacific Alliance trade bloc, which enables the free movement of labour, capital, and goods across the members. In total, the combined market is home to more than 230 million people with very low banking penetration compared to Canada.

This provides Bank of Nova Scotia with attractive growth opportunities, as the middle class expands, and people demand loans and investment products. The region, however, is viewed by investors as carrying higher risks than Canada or the United States.

Earnings

Bank of Nova Scotia generated solid fiscal 2022 results. The bank reported adjusted net income of \$10.8 billion in the year compared to \$10.2 billion in fiscal 2021. Adjusted diluted earnings per share rose 8% and adjusted return on equity came in at 15.6%, which is comfortably above the 14% target.

Canadian banking and international banking led the way with strong year-over-year earnings gains. Wealth management and capital markets results came in relatively flat compared with fiscal 2021.

Overall, Bank of Nova Scotia had a good year in fiscal 2022.

Dividends

Bank of Nova Scotia raised the dividend in 2022. The current quarterly distribution of \$1.03 per share provides an annualized yield of 6.2% at the current share price near \$66.50. The stock was as high as \$95 in 2022 and started the year around \$89.50.

Outlook

The Bank of Canada has increased interest rates significantly in recent months. Too much demand for products and services along with a shortage of labour has driven up prices and wages in the past two years. Raising the cost of borrowing is viewed as an effective way to cool off the economy.

Higher interest rates tend to be positive for Bank of Nova Scotia and its peers, as they can drive up net interest margins. The threat, however, is that the impact of the rate hikes could push the economy into deep economic slump. Higher debt payments are already putting pressure on businesses and households. If companies cut staff aggressively there could be a negative effect in the housing market, as people are forced to sell homes they can no longer afford.

If the property market crashes, Bank of Nova Scotia and its peers could be in for a rough ride.

That being said, the current expectation is for a short and mild recession. This should keep the employment situation relatively healthy and avoid chaos in the housing sector.

Should you buy BNS stock now?

Ongoing volatility is expected in the coming months, but buy-and-hold investors might want to start nibbling at this level. Bank of Nova Scotia appears cheap at the current multiple of just 8.25 times trailing 12-month earnings, and you get paid a decent dividend yield to ride out the turbulence.

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