



Could BNS Stock Be a Big Winner in 2023?

Description

Bank of Nova Scotia ([TSX:BNS](#)) saw its share price drop considerably in 2022. Investors who missed the big bounce off the 2020 plunge are now wondering if the latest correction is a good opportunity to buy BNS stock for a retirement portfolio or a [Tax-Free Savings Account](#) (TFSA) focused on passive income.

Bank of Nova Scotia overview

Bank of Nova Scotia is currently Canada's fourth-largest bank with a [market capitalization](#) near \$62 billion. The bank is unique among its peers due to its large international business located primarily in Latin America.

Bank of Nova Scotia has built up a meaningful presence in Mexico, Peru, Chile, and Colombia over the past 30 years through a series of acquisitions. This might seem like an odd strategy for a Canadian bank, but the four countries are members of the Pacific Alliance trade bloc and are home to a combined population of more than 230 million.

Bank services penetration is very low in these countries compared to Canada, so there is significant growth potential for Bank of Nova Scotia, as the middle class expands. Commercial banking opportunities also exist, as companies need a variety of cash management services when doing business across the four markets. The trade bloc enables the free movement of goods, capital, and labour across the four countries.

The oversized drop in Bank of Nova Scotia's share price last year compared to some of the bank's Canadian peers could be due to concerns that a global recession would potentially hit the international business very hard, as occurred during the pandemic.

At home, investors worry that rising interest rates could deflate the economy enough to trigger a surge in unemployment. This, along with persistently high inflation and soaring debt costs, could cause a jump in defaults on home loans. All of the Canadian banks have large Canadian residential mortgage portfolios.

Bank of Nova Scotia trades near \$69 per share at the time of writing. That's up from the October closing low around \$64 but still down considerably from the \$94 the stock reached in February last year.

Earnings

The meltdown in the share price appears overdone when you look at the fiscal 2022 results. Adjusted net income came in at \$10.8 billion in fiscal 2022 compared to \$10.2 billion in 2021. The international banking group saw adjusted earnings surge by 32% to \$2.45 billion.

Dividends

Bank of Nova Scotia pays a quarterly dividend of \$1.03 per share. The bank increased the payout in 2022, and investors should see another decent boost this year. Management also allocated excess cash to buy bank stock under an increased share-repurchase program in 2022.

At the time of writing, BNS stock provides a 6% dividend yield.

Should you buy Bank of Nova Scotia stock now?

Ongoing volatility should be expected in the coming months, and there is a chance the stock could fall back to the October low. However, at 8.6 times trailing 12-month earnings, Bank of Nova Scotia stock appears undervalued and deserves to be on your radar for retirement portfolio targeting passive income and total returns.

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