



Will Bank of Nova Scotia's Stock Price Soar in 2023?

Description

Canadian bank stocks had a rough ride through the 2022 [market correction](#), and **Bank of Nova Scotia (TSX:BNS)**, in particular, fell out of favour with investors. In the first six weeks of 2023, however, Bank of Nova Scotia is off to a good start, as bargain hunters saw the share price as [undervalued](#) at the end of last year. Investors who missed the recent rebound are wondering if more gains are on the way for BNS stock.

Bank of Nova Scotia overview

Bank of Nova Scotia is the fourth-largest Canadian bank with a current [market capitalization](#) of close to \$87 billion. The shares trade neat \$73.50 at the time of writing. This is up more than 12% in 2023 but still way off the 2022 high of \$95 per share.

The bank likely came under heavy pressure through most of last year due to rising fears that soaring interest rates designed to reduce the rate of inflation would push the Canadian and global economies into a steep economic downturn this year or in 2024.

On the Canadian front, there are concerns that the tight labour market will reverse course, as companies cancel job listings, or even start trimming headcount to preserve cash flow as revenue begins to slide. If that happens, struggling households could be forced to default on mortgage payments. The January jobs report, however, came in very strong, so there doesn't seem to be much near-term risk to a wave of unemployment.

This is good news for the housing market that is already under pressure from soaring mortgage costs. New buyers are sitting on the sidelines hoping for better prices. This is hurting the demand side of the market.

At the same time, households are trying to navigate rising living costs, along with a big jump in mortgage payments on variable-rate loans or higher rates on fixed-rate renewals. Eventually, pundits expect listings to rise, as people with too much debt are forced to sell. As long as everyone still has a job, there shouldn't be a housing meltdown, but a meaningful jump in unemployment could trigger a

sudden wave of properties hitting the market.

In a worst-case scenario for the banks, there would be a plunge in property prices to the point where a significant part of the home and condo portfolio sees values fall below the amounts owed to the banks on the properties.

That situation is unlikely to materialize, but the possibility has made bank investors nervous.

Bank of Nova Scotia is also considered risky due to its large international business that is heavily focused on Mexico, Peru, Chile, and Colombia. The four members of the Pacific Alliance trade bloc rely heavily on strong oil and copper prices for revenue. The recovery in commodity prices helped drive the rebound from the pandemic. Investors are concerned that a global economic recession could put a quick end to the party.

Bank of Nova Scotia's earnings

The stock slide that occurred last year wasn't driven by bad results. In fact, Bank of Nova Scotia generated adjusted net income of \$10.75 billion in fiscal 2022 — up from \$10.17 billion in fiscal 2021. Adjusted net income in the international business rose to \$2.7 billion from \$2.2 billion the previous year.

Dividends

Bank of Nova Scotia increased the dividend in 43 of the past 45 years and gave investors a decent boost in 2022 after a big hike late in 2021. As such, the distribution should be very safe, even if the economy hits a rough patch.

At the time of writing, the stock offers a 5.6% dividend yield.

Is BNS stock still undervalued?

Economists widely expect a recession to be short and mild. Assuming that turns out to be the case, Bank of Nova Scotia's share price still looks cheap at the current multiple around 9.2 times trailing 12-month earnings.

Some volatility should be expected in the coming months, but it wouldn't be a surprise to see Bank of Nova Scotia hit \$80 at some point before the end of this year if the recession fears prove to be overblown.

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