



## Now Is the Time to Buy Scotiabank (TSX:BNS)

### Description

Canada's banks reported [some lacklustre](#) fiscal second quarter results and **Bank of Nova Scotia's** ([TSX:BNS](#))([NYSE:BNS](#)) were among some of the worst. Canada's third largest lender has lost 21% for the year to date compared to the broader **TSX** where the **S&P/TSX Composite** has fallen by 11%, sparking considerable speculation that now is the time to buy Scotiabank.

### Better than expected earnings

Scotiabank's second-quarter earnings were better than analysts expected despite adjusted net income falling 39% year over year. Interest and non-interest revenue declined by just 3% and 2%, respectively compared to a year earlier.

Furthermore, loan quality not only remained high, but also improved. Scotiabank's gross impaired loan ratio fell by 0.11% to 0.78%, indicating that despite higher loan volumes credit quality is firming.

Scotiabank is also well capitalized. It finished the period with a common equity tier 1 capital ratio of 10.9%, which was only 0.3% lower than a year earlier and still significantly higher than the regulatory minimum.

### Why did bank earnings fall?

The key driver of the sharp decline in Scotiabank's net earnings was its decision to substantially boost lending loss provisions. Lending loss provisions rose by a whopping \$973 million, or % compare dot a year earlier despite credit quality improving.

The key reason for this growing concern over the sizable economic fallout from the coronavirus pandemic and related recession.

Banks around the world have been building sizable cash buffers to absorb the anticipated sharp uptick in impaired loans that will be triggered by the recession. The rational for this is quite simple:

Scotiabank is a systemically important financial institution.

There's obviously no desire for a repeat of the collapse of the U.S. financial system during the great recession. As a result, regulators are pressuring banks to build cash buffers to blunt the impact of a recession on credit quality.

It's unlikely that Scotiabank's credit quality will deteriorate as significantly as the large sum allocated to credit loss provisions indicates. A combination of tight mortgage underwriting standards, loan insurance and a low loan to valuation ratio for Scotiabank's credit portfolio will mitigate the losses.

## Outlook for banks not as poor as believed

The impact of the coronavirus recession on Canadian households likely won't be as severe as some pundits believe, however. Most downside for Scotiabank will be related to its [exposure to](#) Latin America, notably the Pacific Alliance countries of Mexico, Colombia, Peru and Chile. All four countries will likely experience significant economic contractions in 2020 because of the economic fallout from the pandemic.

Much of that downside already appears priced into Scotiabank's market value. Once the economy returns to growth, which is anticipated to occur as early as 2021, Scotiabank's earnings will soar. It will also be able to redirect the considerable capital currently being retained as a cash buffer to protect against a substantial decline in credit quality to revenue earnings activities.

That will further boost margins and earnings.

The economies of Colombia, Chile and Peru, where Scotiabank is a top five bank, will probably grow considerably once the pandemic ends. When that occurs, which could be as early as 2021, earnings for Scotiabank's international business will soar.

## Foolish takeaway

After suffering such a significant loss since the start of 2020, Scotiabank is extremely attractively valued, making now the time to buy. It will not only survive the coronavirus recession, but will also return to growth once the economy improves, giving Scotiabank's earnings and ultimately share price a solid lift.

While waiting for that to happen, you'll be rewarded by the bank's sustainable dividend yielding 6%.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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