



Unusual Put Buys in Canadian Bank with Energy Crisis Impact

Ticker/Price: BNS (\$37.25)

Analysis:

Bank of Nova Scotia (BNS) trading 6X average put volume today with buyers of 500 September \$40 puts for \$6 offer and follows 2300 September \$35 puts bought last week for \$3, unusual size for the name. BNS is also a top-10 weighting in the Canadian ETF (EWC) which had 10,000 June \$22 puts bought yesterday. Shares are down sharply from February and rebounded only to the 38.2% Fibonacci where they have faded and now consolidating in a small bear flag under the 8-EMA. Longer-term, shares broke a major uptrend from the 2009 lows and a move under recent lows at \$32.50 has room back to \$25. The \$48.5B financial trades 7.56X earnings, 1X book, and 5.6X FCF with a 6.6% yield. They are expecting 7% contraction in EPS this year and 6.8% revenue growth, although estimates cut over the last three months. BNS faces headwinds given the macro challenges from coronavirus as well as a low-rate environment which will pressure ROE. But, they also face specific headwinds from housing exposure -- mortgage deferrals expected to hit 1M nationwide by May -- and from energy. According to Bloomberg data, Canada's six largest lenders had near \$60B in energy loans on their books and BNS is the largest, writing more loans for the sector 2019 than any other bank. Analysts have an average target for shares of \$72. BAML downgrading to Neutral on 3-13 given heightened concerns over a recovery in rates and housing which could jeopardize capital return. BAML estimates a 40% cut in EPS and 500 bp cut in ROE for the group over average in a recession scenario which they now expect in Canada given negative GDP growth in Q2 and Q3 expected. Short interest is minimal. Hedge fund ownership fell 5.8% in Q4.

Hawk Vision:



Hawk's Perspective: BNS along with the rest of the Canadian Banks look very troubled and in a real bad position, hard to estimate how low these can go but another leg down appears likely.

Confidence Ranking: \$\$