



## Why You Need the Bank of Nova Scotia in Your Portfolio

### Description

For the year to date the **Bank of Nova Scotia's** ([TSX: BNS](#))([NYSE: BNS](#)) share price has remained relatively flat despite posting some solid results for the last two consecutive quarters and boosting its dividend. This has left the bank attractively priced, and along with a tasty and sustainable dividend and solid growth prospects, it's worthy of a spot as a core holding in any investors' portfolio.

### Emerging markets exposure provides significant growth opportunities

Of the top five banks, the Bank of Nova Scotia has the largest exposure to emerging markets with operations in Latin America, the Caribbean and Central America, and Asia. For the fiscal first quarter 2014, international banking contributed almost a quarter of the bank's total net income.

The significant scale of its international operations gives the Bank of Nova Scotia exposure to some of the fastest growing emerging economies in Latin America, including Colombia and Peru. The bank is the fifth largest bank in Colombia and the third largest in Peru.

Over recent years the bank has made a number of international acquisitions, including a majority holding of Colombia's Banco Colpatria. In order to ensure the success of these investments, the bank has committed to bedding down and completing the integration of its international acquisitions in 2014.

With the Colombian economy expected to grow by 3.5% and Peru's by 5.4% in 2014, there are significant opportunities for the bank to continue expanding its operations in those countries. Their rate of economic growth is also significantly higher than Canada's, whose economy is expected to grow by around 2.6% in 2014.

This emerging markets exposure will continue to provide the bank with exceptional growth opportunities, boding well for further revenue growth, which should translate into a firmer bottom-line.

The Bank of Nova Scotia is also working hard to boost its presence in the Canadian market, both through organic growth within its core Canadian retail and commercial banking business and via acquisitions. In 2012 it bought ING Direct Canada for \$3.1 billion, boosting its deposit base and the scale of its retail banking operations.

### Attractive valuation

Due to the relatively flat performance of its share price, the bank remains attractively priced, particularly when the growth opportunities associated with its emerging markets exposure are considered.

A key metric used to determine whether a banking stock is attractively priced is its price-to-book ratio. Typically the lower this ratio, the more attractively priced the stock. With a price-to-book ratio of 1.9 and a forward-price-to-earnings ratio of 11, the Bank of Nova Scotia appears attractively valued. But as the table illustrates, it is not the cheapest or most expensive of the top five banks.

[BNS Valuation Ratios 250314](#)

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When these two valuation ratios are considered, it is not as attractively priced as the **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)) or **Toronto Dominion Bank** ([TSX: TD](#))([NYSE: TD](#)). But it appears cheaper on the basis of its price-to-book ratio than either **CIBC** ([TSX: CM](#))([NYSE: CM](#)) and **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)).

### **A consistently growing dividend with a juicy yield**

Just like its peers the Bank of Nova Scotia is a dividend machine, having consistently paid a steadily growing dividend since 1892. Over the last five years its dividend has had a compound annual growth rate of over 5%, higher than Canada's inflation rate, while giving investors a dividend yield almost 4%.

This is significantly higher than the risk-free rate (typically considered to be the yield of three-month Canadian government treasuries) and is one of the better dividend yields among its peers. It is equivalent to Royal Bank of Canada's 3.9% and superior to Toronto Dominions' 3.6% but lower than CIBC's 4.1% and the Bank of Montreal's 4.2%.

With a payout ratio of 48%, the dividend is clearly sustainable and with a solid compound growth rate, provides income investors with a steadily growing income stream.

### **Foolish bottom line**

It is difficult for income hungry investors to pass up investing in any of Canada's top banks, with all of them paying a solid dividend yield and having low payout ratios, indicating the dividends are sustainable. But what makes the Bank of Nova Scotia attractive for investors are the growth opportunities offered by its exposure to emerging markets.

## **CATEGORY**

1. Investing

## TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BMO (Bank Of Montreal)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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