3 Major Takeaways From Bank of Nova Scotia's Latest Results

Description

After **Royal Bank of Canada** (TSX: RY)(NYSE: RY) and **Toronto Dominion Bank** (TSX: TD)(NYSE: TD) reported earnings last week, it seemed that the good times would never stop for Canada's big banks. And after **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) reported earnings Tuesday morning, that still seems to be the case. Canada's third-largest bank posted net income of $1.39 per diluted share, an increase of 14% year over year. The result was enough to beat analyst estimates of $1.31.

Below are the three biggest takeaways from the quarter.

1. Strong results in Canadian banking

Like Canada's other big banks, Bank of Nova Scotia has been benefiting from a resilient Canadian economy, more specifically a strong real estate market. And that continued this quarter, with net income up 12% from last year. The big event for the bank in Canada was the signing of a credit card deal with **Canadian Tire**, part of the bank's efforts to grow its domestic business.

Just like the other banks, it should be worried that the good times cannot last forever. But Bank of Nova Scotia is less concentrated in Canada than any of the other big five — about half of net income in 2013 was earned domestically. So it should have no problem absorbing any weaknesses in the Canadian market.

2. Mixed results internationally

Bank of Nova Scotia's focus on emerging markets, particularly in Latin America, is unmatched among the Canadian banks — it is this focus that has hurt its share price over the past 12 months. And in the second quarter, there were still some things to be concerned with. Lower interest rates in certain countries affected margins, and loan losses ticked up slightly as well.

But it was able to grow international loans and deposits by 14% and 16% respectively, which investors should be very happy about. Over the long run, as these economies continue to perform well, it should continue growing its asset base, which will translate into healthy earnings growth for years to come.

3. Stronger capital position

Thanks to Bank of Nova Scotia's continued strong earnings, its capital position has strengthened, with the Basel III Common Equity Tier 1 ratio now at 9.8%. A year ago, it was at 8.6%. This has allowed it more leeway on returning capital to shareholders. In response, the bank announced a buyback program for up to 1% of outstanding shares.

To put this number in perspective, 1% of its shares would cost about $826 million at current market prices, equal to nearly half of the company's earnings last quarter. So it's not a small amount of money.

Nor is it a poor use of money. Due to its share price weakness, the company trades at only 13 times earnings, a low number for a company with such strong growth prospects. It might be a good idea for you to follow the bank's lead and buy some of its stock.

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