3 Reasons to Buy Bank of Nova Scotia

Description

There are certain companies in Canada that can form the foundation of any portfolio. These firms should have a strong track record, a solid market position, and healthy profits. It's no wonder that the big five banks are often cited as a good place to start.

Among the Canadian banks, arguably your best bet is **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS). Below are three reasons why.

1. Emerging markets

Bank of Nova Scotia has more international exposure than any of the other big five banks, with nearly half of 2013 income coming from outside Canada's borders. These international banking activities come primarily from emerging markets, specifically the Latin American countries of Mexico, Colombia, Peru, and Chile.

This gives it plenty of opportunities to increase earnings. Not only are these countries growing quickly, but they have under-banked populations. So as more of these people get deposit accounts and loans, the bank will be well positioned.

In contrast, **Bank of Montreal** (TSX: BMO)(NYSE: BMO) is focusing its expansion efforts in the United States, where competition is intense and returns are low, and **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) has practically no foreign operations at all, so any meaningful growth will have to come from acquisitions.

2. Strength

This is what separates the Canadian banks from their peers in the United States, and this bank offers a perfect example. While many American banks were either getting bailed out or going completely under during the financial crisis, Bank of Nova Scotia maintained a return on equity above 16% in both 2008 and 2009.

There are two reasons for this good performance. One is that Canadian banking is inherently more profitable, as mentioned above. Secondly, Canada's banks were better capitalized, something that remains true today. To illustrate, Bank of Nova Scotia's Basel III Common Equity Tier 1, or CET1, ratio is 9.8%. Globally, the minimum CET1 ratio will be 7% by 2019, and many banks are having to cut back in order to reach that threshold.

3. Reasonable price

Despite these positive attributes, the bank's shares are not particularly expensive, at only 13.4 times earnings. By comparison, TD Bank trades at nearly 15 times earnings.

So why are its shares so reasonably priced? Well, early in 2014 there was a selloff in emerging markets stocks, and Bank of Nova Scotia was caught up in the mix. It didn't matter that the bank was concentrated in healthy, growing, under-banked countries, but it provided a perfect opportunity to pick up the shares at a discount. Even though the shares have done well more recently, going up 12% in the last three months, this is still an opportunity to pick up a great franchise without paying too much.

CATEGORY

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
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