



Why The Bank of Nova Scotia Is Such a Bargain Right Now

Description

Over the past three months, the **S&P/TSX Composite** has been in full-blown correction mode, dropping close to 6%, despite a more recent rebound. But there is some good news: The Canadian banks have mostly been able to escape the market's wrath. Over this time, five out of the big 6 have lost no more than 2.4%.

However, one bank has fared particularly poorly: **The Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)), which has lost 7.4% of its value. Why is this the case? And are Bank of Nova Scotia shares now a bargain?

First, a little context

The Bank of Nova Scotia proudly calls itself "Canada's most international bank", and rightfully so. Nearly 50% of earnings came from outside Canada's borders last year, much of this coming from emerging markets, particularly Latin American countries. To be more specific, CEO Brian Porter said the bank would emphasize Mexico, Colombia, Peru, and Chile. All of these countries have very healthy and fast-growing economies. So Bank of Nova Scotia should have plenty of opportunities to grow earnings for years to come.

Contrast this with a bank like **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)). The bank has nearly all of its business (including more than 90% of its loans) in Canada, making it very difficult to grow earnings. New CEO Victor Dodig has reiterated the bank's commitment to grow its wealth management business. But this strategy usually requires expensive acquisitions.

So why the falling share price?

Bank of Nova Scotia shares have not only lagged peers for the past three months. They have lagged badly throughout all of 2014. One of the main reasons has been nervousness about emerging markets. The chaos in the Middle East, Ukraine, and elsewhere have prompted investors to put their money in safer places such as the United States.

Making matters worse, Bank of Nova Scotia's growth numbers haven't impressed in recent months. In

fact, adjusted profit in the most recent quarter was on par with the quarter before that. Growth has slowed in Canada, and the bank is also struggling in geographies like Asia and the Caribbean. Many investors are running out of patience.

So is this an opportunity?

The sell-off appears to be overdone. Bank of Nova Scotia's problems are very minor, and are also relatively short term. Furthermore, the nervousness surrounding emerging markets really shouldn't apply to Bank of Nova Scotia — the bank is concentrated in relatively safe jurisdictions.

And now, shares are trading very cheaply, at only 11.5 times earnings. In fact, none of the big 6 trades this cheaply. This almost seems unfair for a company with such strong growth prospects. But it also means there's a tremendous opportunity to pick up a great company at a discount.

This discussion leaves out the other big 5 banks, but the free report below covers those in greater detail.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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