



What Does Bank of Nova Scotia's Restructuring Plan Mean for Investors?

Description

The Bank of Nova Scotia ([TSX: BNS](#))([NYSE: BNS](#)) made some big announcements that made headlines on all business news outlets. At a glance, this is what was announced:

- The bank will be cutting 1,500 jobs (about 1,000 in Canada)
- It will be closing or downsizing about 120 international banking branches
- It will take a \$451 million pre-tax charges in the fourth quarter

The third point is probably the most worrisome for investors as it will most directly hurt the company's earnings for the next quarter, expected in December.

Let's go through each of the above three points, starting from the bottom and take a look at how this would likely affect investors in the Bank of Nova Scotia.

\$451 million pre-tax charges

This charge includes everything – from Bank of Nova Scotia's Venezuelan assets, to its Caribbean hospitality loan portfolio, to plain old retail loans gone bad. Analysts have long questioned its move to venture into Latin America and the Caribbean. The announcement only seems to cement this view and raise analysts' eyebrows. So how will that play on the bank's earnings next quarter?

Well, it is believed the charges in total are expected to cut the bank's fourth-quarter diluted earnings by \$0.28 cents per share. New CEO Brian Porter said in a statement that he is confident that "our 2014 reported results will be within our financial objectives for the full year."

Mr. Porter also says that these initiatives will allow Bank of Nova Scotia to continue investing in high-growth areas of the bank as he intends to create a more streamlined, efficient bank.

Job cuts and downsizing

Bank of Nova Scotia also said it intends to slash 1,500 jobs and eliminate roughly 120 international branches. There is no doubt that employees will not be pleased about this move. Last year, the bank

reported a record \$6.7 billion in net profit. So how does it justify to its employees the termination of their jobs? That's a question that executives still need to address but they believe that the bank is expected to save expects to save about \$120 million annually due to this restricting. However, investors will only see the full benefits of this on the books sometime in 2016.

Bank of Nova Scotia is also book a restructuring provision of about \$148 million in the next quarter, primarily to cover employee severance costs.

As the days go by, there will continue to be a lot more analysis on these announcements. It will be interesting to see if Bank of Nova Scotia will change its emerging markets strategy, although it doesn't quite seems so at the moment. For now, it seems like this announcement is indeed likely to prove to be a positive move for the bank in the long-term.

CATEGORY

1. Bank Stocks
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1. NYSE:BNS (The Bank of Nova Scotia)
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