



## 3 Reasons I'm Still Bullish on the Bank of Nova Scotia in 2015 and Beyond

### Description

Despite claims that the record run of profits for Canadian banks is showing signs of cooling I remain bullish on the prospects for the **Bank of Nova Scotia** ([TSX: BNS](#)) ([NYSE: BNS](#)).

Let me explain why.

First and foremost, unlike the **Royal Bank of Canada**, **Canadian Imperial Bank of Commerce**, the **National Bank of Canada**, and the **Bank of Montreal**, it has established a sizable international footprint. This now sees it operating commercial banking businesses in 43 countries globally, with considerable exposure to the fast growing emerging economies of South America.

This includes the rapidly growing Colombian and Peruvian economies where it is the fifth and third largest commercial bank respectively. In 2015 Colombia's GDP is forecast to expand by 5%, while Peru's is expected to grow by 5.6%, both of which are significantly higher than the 2.5% forecast for Canada.

But more importantly for its growth prospects, both countries are significantly under-banked. This sees a significant portion of the population with little or no access to traditional banking products and services providing a ready-made pool of customers as growing wealth in both countries increases demand for banking products.

More importantly earlier this year, Scotia Bank entered into a deal with **Cencosud S.A.** (NYSE: CNCO) Chile's largest retailer and the third largest listed retailer in Latin America, acquiring a 51% stake in its credit card business. Not only has this boosted its presence in South America but also its consumer lending portfolio where it has traditionally lagged behind the other big 6 banks. It also boosted its consumer lending portfolio by acquiring a 20% stake in **Canadian Tire Corporation Ltd.**'s (TSX: CTC) financial services division.

While these acquisitions may take some time to boost Bank of Nova Scotia's bottom line, they have significantly boosted its long-term growth prospects in the high-margin consumer-lending business.

Second, Bank of Nova Scotia continues to press ahead with boosting efficiencies and reducing costs.

It was in early November when Bank of Nova Scotia said it would restructure its Canadian and International banking operations. This sees it focused on closing 120 international branches and laying off 1,500 employees, of which two-thirds will be in Canada. As a result of which it expects to take \$451 million in pre-tax charges.

While the restructure has raised some eyebrows among analysts it is a natural result of the lack of growth opportunities in Canada for banks, where efficiency and cost-cutting have become the easiest way to boost bottom lines.

It will also allow Bank of Nova Scotia to remain the most efficient among the big 6, with a third-quarter 2014 efficiency ratio of 48%. This is significantly lower than the Bank of Montreal's 65%, CIBC's 61%, **Toronto Dominion's** 54%, National Bank's 59% and Royal Bank's 51%.

Overall, I believe this is a positive move by Bank of Nova Scotia allowing it to clear the deck for 2015 and boost its bottom line while remaining focused on long-term growth in Canada and its more productive international operations.

Finally, Bank of Nova Scotia appears attractively priced while continuing to pay the second highest dividend yield among the big 6.

Unlike its peers, Bank of Nova Scotia's share price has not experienced the same run-up in value over the last year. Over that period its share price has remained relatively flat only gaining 2%, compared to National Bank's 15%, Royal Bank's 14%, CIBC's 11%, Bank of Montreal's 11% and Toronto Dominion's 12%. This leaves Bank of Nova Scotia appearing attractively priced with a price-to-book ratio or P/B of 1.9, which is the lowest of the big 6 after the Bank of Montreal with a P/B of 1.8.

More impressively Bank of Nova Scotia continues to reward shareholders with the second highest dividend yield of the big 6 of 3.7% coupled with a very sustainable payout ratio of 45%.

With Bank of Nova Scotia focused on boosting efficiencies and cutting costs along with some of the best growth prospects of the big 6 it is only a matter of time before its share price and valuation multiples catch-up with its peers. This makes now the time to acquire Bank of Nova Scotia shares while they still appear attractively priced.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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