Why Now Is the Time to Buy the Bank of Nova Scotia

Description

Fears over the direction of the Canadian economy due to the rout in oil prices, a still frothy housing market, and growing unemployment are increasing the level of risk associated with Canada's banks. Analysts and investors are becoming increasingly cautious of the banking sector, with the majority of its earnings generated from domestic lending, particularly for the housing sector.

However, I believe that these fears are overblown and that the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) offers considerable value for investors, with its share price having plunged 21% over the last six months since the rout in oil prices commenced.

So what?

As Canada's most international bank, Bank of Nova Scotia is well positioned to mitigate many of the risks associated with a slowing Canadian economy and the impact of the rout in oil prices. This is because it obtains just over a fifth of its net income from its international operations, which have a significant presence in the fast growing Andean economies of Colombia, Peru, and Chile. Each of these emerging markets is forecast to see 2015 GDP growth of 4.8%, 5.6%, and 2.9%, respectively, which is significantly higher than the 2% forecast for Canada. This certainly bodes well for the Bank of Nova Scotia's ability to grow earnings even if the Canadian economy falters because of weaker crude prices.

The bank has also focused on cutting costs and boosting efficiencies, and it should see its profitability improve as these strategies gain traction.

Bank of Nova Scotia has received some bad press for a series of write-downs primarily associated with its Caribbean business, which is labouring under the pressure of a faltering Caribbean economy and higher loan defaults. However, loans in the Caribbean only make up 1.4% of its total loans under management (LUM), which makes the impact of the ongoing problems in the region negligible.

The risks associated with the rout in crude have also raised red flags among analysts, particularly with many of Canada's banks having lent extensively to companies in the energy patch. Nonetheless, only 3% of Bank of Nova Scotia's total LUM are in the oil and gas sector, making the direct impact of the markedly softer crude prices on its lending portfolio negligible.

More impressively, Bank of Nova Scotia has hiked its dividend 43 times in the last 45 years and for the last four straight years. This gives it a solid dividend yield of 4%, but more impressively, a 10-year compound annual growth rate of 5%, which is almost three times the average annual inflation rate for the same period. The dividend is also sustainable, with a conservative dividend payout ratio of 47%.

This makes it an extremely attractive investment for income-hungry investors.

Now what?

The earnings growth of Canada's more domestically focused banks may be under pressure because of the rout in oil prices, a frothy housing market that is set to cool, and a lack of domestic growth opportunities.

However, Bank of Nova Scotia is well positioned to mitigate the impact of these threats because of its strong international presence in some of the fast-growing global economies. When coupled with its history of rewarding investors through strong dividend growth, its attractive valuation ratios, including a price-to-book of 1.75 and a forward price-to-earnings of eight, make it an enticing investment at this time.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/10/02
Date Created
2015/02/09
Author

mattdsmith