



Bank of Nova Scotia's Latest Results Confirm Why it Should Be a Core Holding in Every Portfolio

Description

Despite the oil rout and a weak Canadian economy, Canada's most international bank, the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), has yet again reported some solid quarterly results. The strength of these results vindicate the risks it has taken in growing its offshore presence. They have also allowed the bank to yet again hike its dividend, highlighting why it should be a core holding in any portfolio.

Now what?

First quarter net earnings grew by 1% year over year, but impressively, there was a significant improvement in the performance of the bank's international operations. For those operations, net income shot up a massive 37% compared with the previous quarter, and increased by 2% year over year. This is despite the oil rout and weak commodity prices having an impact on economic growth in the countries where it has its largest presence: Colombia and Peru.

The key driver of this bottom-line growth was strong loan growth, particularly in Latin America. This was coupled with lower provisions for credit loss, most notably in the Caribbean, where the bank has worked hard to reduce its exposure to the region's faltering economy.

Impressively, overall loan and deposit growth was strong. Loans grew by 6% year over year, whereas deposits were up by a healthy 8% for the same period.

More importantly, all of the key indicators of the bank's financial health remained within acceptable levels, with many having improved. The Bank of Nova Scotia's common equity tier one capital ratio was 10.3%, which was a 90-basis-point increase year over year, while net impaired loans as a percentage of total loans was an acceptable 0.5%.

The end result of this solid performance was that the Bank of Nova Scotia rewarded investors with yet another dividend hike, boosting its annual dividend by 5%, giving it a sustainable and tasty 4% yield. It is also the fifth straight year that the company has hiked its dividend, leaving it with an impressive 7%

10-year compound annual growth rate.

Clearly, the Bank of Nova Scotia's international strategy is paying dividends for investors. The solid improvement validates the rationale for a number of acquisitions the bank has made in the fast-growing economies of Latin America in recent years. These economies will also continue to grow, with them having largely shrugged off the impact of the oil rout and weak commodity prices. Analysts expect the economies of Colombia and Peru, where the Bank of Nova Scotia has some of its greatest exposure, to outpace Canada's economy with 2015 GDP growth of 4.2% and 5.5% respectively.

So what?

This strong economic growth should fuel better performances by the bank, allowing it to continue rewarding investors through further dividend hikes. It also reduces its dependence on a waning Canadian economy that is feeling the full brunt of the oil rout. I believe this makes the Bank of Nova Scotia a core holding for every portfolio, particularly when its juicy and sustainable dividend yield is considered.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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