



Why I Remain Bullish on the Bank of Nova Scotia

Description

Canada's most international bank, the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) continues to garner negative headlines. It is facing a range of headwinds that include its exposure to collapsed gold miner **Allied Nevada Gold Corp.** However, despite these headwinds, I believe Bank of Nova Scotia should be a core holding in every portfolio.

Now what?

Unlike the majority of its big-six peers, the Bank of Nova Scotia's fortunes are not primarily tied to the Canadian economy. Like **Toronto-Dominion Bank**, it has developed a solid offshore franchise that gives it exposure to some of the fastest growing economies in Latin America.

Its international operations contribute just over a quarter of its total net income, with the majority of that coming from the fast-growing economies of Latin America that are focused in Colombia and Peru. Both economies are feeling the effects of waning commodities demand, but they are still expected to grow strongly. It is estimated they will both experience GDP growth of 4% during 2015. This rate of growth is double than that expected for Canada for the same period.

Furthermore, these countries are heavily underbanked. It is estimated that only one-third of Colombians and one-fifth of Peruvians have a banking account. This, in conjunction with the expected solid economic growth in the region, bodes well for further earnings growth, particularly as the Bank of Nova Scotia is focused on restructuring its operations to drive efficiencies and profitability.

One less than inspiring aspect of its international operations are those operations located in the Caribbean. The region is caught in a protracted economic slump and this is weighing on the bank's performance. However, the bank has wound down much of its exposure to the region and this should shield it from further losses.

Another aspect of the Bank of Nova Scotia's operations that concerns analysts is its exposure to the energy patch. The bank has \$15 billion in loans to the oil and gas industry, but these only represent just over 3% of its total loans.

The bank is also well positioned to manage any fallout from a housing collapse triggered by the oil rout. It has a high-quality loan portfolio with net impaired loans only representing a mere 0.5% of the total portfolio, while just over half of all its mortgages are insured, thereby minimizing any losses.

So what?

The Bank of Nova Scotia gives investors considerable exposure to a range of emerging economies located predominantly in Latin America, along with the safety of investing in a Canadian regulated bank. Exposure to these economies gives it an advantage over the majority of its Canadian-focused peers by reducing its reliance on Canada and enhancing its long-term growth prospects. This will help to fuel further dividend and share-price growth.

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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