



Is Bank of Nova Scotia the Best of the Big Banks?

Description

Canada's big banks have suffered of late along with the Canadian economy, both hit by weak crude oil prices in the first quarter. But the naysayers fail to appreciate the importance of the Canadian banks' domestic retail operations and the oligopolistic nature of the Canadian market, says Mark Thomson, managing director, equities, and head of research at Beutel Goodman & Co.

"Compared with their U.S. counterparts, the Canadian banks face a more predictable and consistent regulatory environment," Thomson said in a recent *Morningstar* commentary.

Of the big banks, Thomson favours **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), noting that the stock has "firmly established" itself in several international markets and has operated in some of those locations for decades. "We believe this extensive international network would be difficult to replicate. In addition, we think Scotiabank benefits from Canadian laws that limit foreign competition and help preserve its competitive position."

Bank of Nova Scotia is on the hunt for even more international acquisitions, with Bloomberg reporting this week that Canada's third-largest lender is exploring a bid for Citigroup's consumer banking units in Costa Rica and Panama. The businesses could be valued at as much as US\$1.1 billion, sources said. Earlier this month, Bank of Nova Scotia acquired Citigroup's retail and commercial bank operations in Peru.

The bank also recently purchased 51% of Chilean credit card company Cencosud in a deal valued at US\$280 million. "This partnership is in line with our strategy to increase market share across all of our priority markets, including Chile," said Dieter Jentsch, group head of international banking at Bank of Nova Scotia.

Thomson adds that Bank of Nova Scotia's stock trades at a discount to that of **TD Bank** and **Royal Bank of Canada**, but he concedes there are some concerns about the bank's foreign operations in countries such as Mexico, Chile and Peru: "Scotiabank is not among the top three banks in each of these markets and therefore faces competitive issues," he notes. "Also, some of these economies are vulnerable to the pullback in resource prices." But Thomson believes a lot of these concerns are

already reflected in Bank of Nova Scotia's stock price.

Bank of Nova Scotia releases its second-quarter earnings on May 29. It reported net earnings of \$1.7 billion in its first quarter, up 1% from the prior year's first quarter. Although 1% earnings growth is hardly a disaster, analysts are expecting better in the second quarter as the emphasis moves away from crude oil prices, which have stabilized, and returns to bank fundamentals. Overall, bank earnings are expected to grow in the 4% range in the quarter.

Investing in any of Canada's big banks has little downside, especially for long-term investors. But Bank of Nova Scotia, whose shares are down 5% over the last year, may be undervalued and due for a rebound.

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

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Date

2025/07/01

Date Created

2015/05/26

Author

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