



Bank of Nova Scotia Lowers Risk by Expanding Internationally

Description

One of the biggest headwinds of investing in Canada's biggest banks is the lack of geographical diversification. While Canada's red-hot real estate market has propelled bank stocks to historic highs in recent years, many are worried that a slowdown would crush loan book values.

Fortunately, one bank is doing something to diversify its revenues and protect investors from a downturn in its biggest market. Last week, the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) announced that it will buy certain Panama and Costa Rica operations from U.S. behemoth **Citigroup Inc.**

Bank of Nova Scotia has struggled in recent years growing its international revenue base. This series of acquisitions should help turn that around, lowering the risk for investors along the way.

A much needed pillar of growth

Historically, Bank of Nova Scotia has generated impressive profits in its home turf of Canada, but has struggled in the international realm. According to filings, the move will *triple* its customer base in the two countries. After the transaction, the bank will control roughly 18% of the credit card market in Panama with a 15% share in Costa Rica

Both countries' economies are surprisingly stable. Costa Rica has enjoyed strong growth since emerging from a recession in 1997. Panama meanwhile has had almost 10% annual GDP growth over the past decade. By boosting its market share in two relatively stable, high growth countries, Bank of Nova Scotia is making a long-term bet.

Shifting international exposure to lower systemic risk

Bank of Nova Scotia's current international revenues are largely reliant on Chinese demand. For example, two of its biggest international regions (Chile and Peru), generate about a quarter of their exports from China. Panama and Costa Rica stand at just 3%.

With concerns over the Chinese growth story, Bank of Nova Scotia is rebalancing its international exposure risk.

Recent insider buying is encouraging

Earlier this month, Bank of Nova Scotia director William Fatt picked up 3,100 shares in the public market at \$64.33, equating to a total of over \$200,000. With shares down 17% in the past year (versus only a 9.5% decline for the TSX overall), this sizable purchase is a welcome endorsement from management.

Rest easier

With significant attention being paid to Canadian banks' over reliance on their domestic markets, not enough analysts are looking at Bank of Nova Scotia's international diversification. While the bank will still be largely affected by a downturn in Canada's real estate market, it's certainly better insulated than some of its peers.

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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Date

2025/08/27

Date Created

2015/07/27

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