



## Why Bank of Nova Scotia Is the Best Growth Play of Canada's Banks

### Description

The oil rout, claims of an overheated property market, and a slowing Canadian economy have triggered considerable consternation among analysts over the outlook for Canada's banks.

Each of these factors have caused the banks' earnings growth to come under pressure after a number of record results. The most vulnerable to these pressures are banks that are focused exclusively on the domestic market, such as **Canadian Imperial Bank of Commerce** and **Canadian Western Bank**.

One of the best ways to mitigate these risks is to invest in **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

### Now what?

You see, Bank of Nova Scotia is Canada's most international bank with 21 million customers across North America, Latin America, the Caribbean, and parts of Asia.

In fact, it is the bank's substantial footprint in Latin America, where it is the fifth-largest bank in Colombia, the third-largest in Peru and seventh-largest in Mexico, that gives it substantial growth prospects. These economies are among some of the fastest growing in Latin America and have governments that are promoting favourable business environments.

Then you have the bank's presence in what is could be described as Latin America's most advanced economy, Chile, where it is the sixth-largest bank. It was only last year that Bank of Nova Scotia acquired a 51% stake in the financial services arm of Chile's largest retailer **Cencosud SA**, substantially boosting its consumer credit portfolio in Latin America.

This gives it even greater access to Latin America's strongest economy, one of Chile's largest consumer credit distribution channels, and a rapidly growing middle class that will help to drive further earnings growth.

Each of these factors will act as powerful tailwinds for earnings growth and can already be seen in its latest results.

For the third quarter 2015, net income from its international business grew by 10% both quarter over quarter and year over year on the back of strong credit growth.

Furthermore, because each of these economies are growing at a faster rate than Canada's, they have far higher official interest rates, and this allows Bank of Nova Scotia to generate a far higher net interest margin. At 4.77% for the third quarter, this is almost double the net interest margin that its Canadian banking business is generating.

When coupled with lower operating costs in the region, which sees its international business generating a superior productivity ratio compared to its Canadian business, this business has the capacity to be far more profitable. This has been a key reason for its international business increasing its contribution to the bank's bottom line.

Over the last year, this contribution has grown from 21% for the third quarter 2014 to now be 29% for the third quarter 2015 and, for the reasons discussed, this trend will continue.

### **So what?**

Bank of Nova Scotia gives investors the ability to benefit from emerging markets exposure without leaving the comfort of Canada, which is a relatively low-risk jurisdiction. This exposure is powerful tailwind for earnings growth; it will help to offset any weakness in Canada's economy. When these factors are considered in conjunction with a history of regular dividend hikes and its juicy 4.5% yield, Bank of Nova Scotia shapes up as probably the best growth play of Canada's major banks.

### **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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