



Why Bank of Nova Scotia Should Be a Core Holding in Every Portfolio

Description

Despite ongoing concerns about how Canada's slowing economy and the slump in commodities prices will effect Canada's banking sector, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) has reported some solid results for the last quarter.

Let's take a closer look at those results to see what they tell us about the future for Canada's most international bank.

Now what?

Bank of Nova Scotia's adjusted net earnings of \$1.46 per share beat the analysts' expectations of \$1.44 per share, and this solid result can be primarily attributed to a sharp uptick in the performance of its international business.

The bank's international business was able to lift net income by 4% quarter over quarter and a very impressive 33% year over year. This impressive performance can be attributed to strong growth in asset, deposit, and fee income in its core international market, Latin America.

More importantly, Bank of Nova Scotia's international business continues to generate a particularly impressive net interest margin (NIM), which is a key measure of how profitable a bank's lending operations are. For the fourth quarter International Banking reported a NIM of 4.7%, which is more than double that generated by Canadian Banking.

Such a solid NIM underscores just how profitable its international business is.

Even after taking into account the impact of the commodities rout on a number of Latin American markets, I expect International Banking to continue performing strongly over the long term.

You see, in its core market of Latin America, where it is focused on Colombia, Peru, Chile and Mexico, there is considerable room for growth. Both Colombia and Peru remain heavily underbanked, providing the Bank of Nova Scotia with considerable growth opportunities, particularly when the rapidly growing middle class is accounted for.

Furthermore, both of those countries continue to experience strong economic growth despite weak commodity prices. For 2015 Colombia's GDP is expected to grow by 2.9%, while Peru's will grow by 2.8%, which in both cases is well above the 1.2% forecast for Canada.

While the international side of the bank's business continues to perform strongly, it is also important to evaluate the level of risk that it is carrying.

One aspect that has concerned analysts regarding Canadian banks is their exposure to the energy patch with sharply weak crude taking its toll on oil companies. In the case of Bank of Nova Scotia, only 3.5% of the value of its total loan book is exposed to the oil industry.

The overall quality of its loan portfolio also remains high; net impaired loans remain stable quarter over quarter and grow by a modest 4% year over year. They also only represent a mere 0.44% of the total value of its loan portfolio.

All of these aspects of its operations point to the bank being able to continue growing at a solid pace, which will only increase once oil prices and Canada's economy rebound.

So what?

Bank of Nova Scotia has to be one of the most appealing long-term investments available to investors. Not only does its international operation endow it with solid growth prospects that have allowed it to offset slower economic growth in Canada, but management continues to retain a firm grip on risk. These factors, along with a juicy but sustainable 4.7% dividend yield, make it a core holding for any portfolio.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

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