



## Should Investors Be Worried About Moody's Corporation's Downgrade of Bank of Nova Scotia?

### Description

International ratings agency Moody's has recently downgraded **Bank of Nova Scotia's** ([TSX:BNS](#))([NYSE:BNS](#)) credit ratings. According to Moody's, the move was taken because of the bank's expansion into riskier banking activities, such as unsecured consumer lending, and its considerable exposure to less stable emerging markets.

This is understandable because during times of economic uncertainty, those segments of its business are more prone to deterioration; unsecured consumer lending is particularly vulnerable.

However, despite this downgrade I still believe that Bank of Nova Scotia is a solid addition to any portfolio.

### Now what?

Bank of Nova Scotia offers Canadian investors exposure to a range of emerging markets with a focus on the Latin American economies of Mexico, Colombia, Chile, and Peru without leaving the safety and security of Canada.

Despite its emerging markets exposure being flagged by Moody's as one of the reasons for the downgrade, it is also an important long-term-growth lever for the bank and a key reason for investing in Bank of Nova Scotia.

You see, its Latin American businesses provide it with exposure to some of the fastest-growing emerging economies globally and diversifies its exposure away from Canada. The economies of Peru, Colombia, and Mexico are also underbanked and, thanks to their strong economic growth, have rapidly expanding middle classes, thereby increasing the demand for financial services.

Accordingly, analysts estimate that banking businesses in Chile, Colombia, and Peru will experience between 10% and 13% earnings growth over the next five years.

In response to the growth opportunities offered by Mexico, Colombia, Chile, and Peru the bank has

planned to spend \$350 million to expand its retail banking operations in those markets. Such a large investment looks risky because of the commodities crunch and the uncertainty surrounding the global economy, particularly with those economies being dependent on the extraction and export of commodities as a key driver of economic growth.

However, investors need to realize that eventually the global economy and commodity prices will recover. As a result, Mexico, Chile, Colombia, and Peru will return to the high rates of economic growth we have already witnessed. These economies also have higher official interest rates than Canada, making Bank of Nova Scotia's loans in those countries far more profitable, which will give its bottom line a nice bump as its Latin American loan book grows.

Each of these factors is reflected in the Bank of Nova Scotia's targeted three- to five-year 10% compound annual growth rate for its businesses in Chile, Colombia, and Peru.

It should be noted that Bank of Nova Scotia, like all of the major Canadian banks, has a conservative approach to managing risk. This means that it has a solid, well capitalized balance sheet and a low level of non-performing loans.

### **So what?**

Clearly, there are short-term headwinds facing Bank of Nova Scotia, and it won't all be clear sailing for the foreseeable future. Many of the international markets it is expanding into are feeling the effects of weak commodity prices, and the economic downturn will impact the bank's loan book.

However, over the long term the bank has considerable growth potential and will reward investors with a regular dividend payment, which currently yields just over 5%, while they wait for its stock to appreciate.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

### **Category**

1. Bank Stocks
2. Investing

### **Tags**

1. Editor's Choice

**Date**

2025/10/01

**Date Created**

2016/01/29

**Author**

mattsmith

default watermark

default watermark