Should You Buy Bank of Nova Scotia After a Strong Quarterly Report?

Description

The past few years haven't been particularly fruitful for shareholders of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). In fact, the bank's shares are down by roughly 2% over the past half-decade, while each of the other Big Five bank stocks have gained at least 12%. Of note, **Toronto-Dominion Bank** leads the pack with a 32% gain.

But shareholders of Canada's most international bank got a nice reprieve on Tuesday as the bank reported better-than-expected results. The bank also boosted its quarterly dividend to $0.70 per share, up from $0.70 previously. Its stock price surged 5.8% that day.

So why exactly were shareholders so excited, and what does this mean for the bank going forward?

International banking was the star

When Brian Porter became CEO of Bank of Nova Scotia, the bank's international operations were struggling to say the least. The biggest problems were in the Caribbean, where lacklustre tourism numbers were dragging down many countries' economies. So he decided to focus international banking efforts on four "core" countries: Mexico, Colombia, Peru and Chile.

Of course, these countries face their own challenges. But so far Mr. Porter's efforts appear to be paying off. Bank of Nova Scotia's international banking operations reported net income of $505 million in the quarter, up 21% year over year. Other figures looked promising as well–loans increased by 19% and deposits increased by 27%. The PCL ratio (which measures loan losses) dropped by 19 basis points.

Part of the boost came from favourable foreign currency effects. But even after accounting for FX, Mr. Porter's efforts seem to be paying dividends.

Canadian banking is holding it together

Of course, there is no shortage of concerns when it comes to Canadian banking. Oil prices have wreaked havoc on our economy, consumers remain heavily indebted, property prices are at stratospheric levels, and low interest rates are compressing margins.

But so far at least, the big banks seem to be holding it together, and Bank of Nova Scotia is no exception. Profit from the Canadian Banking division rose 7% year over year, and the PCL ratio rose by only three basis points.

Part of Bank of Nova Scotia's challenge in Canada is credit cards, which is a business that the bank has lagged in for years. But significant progress is being made. As pointed out by Mr. Porter, 30% of Bank of Nova Scotia customers carry a bank-issued credit card, up from 20% previously. He believes that 40% is achievable.

Not a bad option

Investors are certainly concerned about the Big Five banks, believing that the worst has yet to come.

But let's establish some perspective here: none of the Big Five banks have cut their dividends since World War II. And Bank of Nova Scotia's payout now yields nearly 5%. So if you're looking for a nice steady payout, you'll have trouble finding higher yields than Bank of Nova Scotia's. Put another way, if you're looking for big yields, then Bank of Nova Scotia's dividend is one of the safest options.

Thus, even after Tuesday's bump, this remains a great stock, especially if you're looking for quality dividends.

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