Is Bank of Nova Scotia a Buy-and-Hold-Forever Stock?

Description

There’s no denying that bank stocks have the potential to be long-term investments primarily because they play a part in our everyday lives from the mortgages to the savings accounts to the credit cards we use. If consumers are continuing to rely on banks and their products, don’t they make great investments as well?

One stock that continues to interest me is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) because it has taken a slightly riskier approach to its business; specifically, of all the Canadian banks, it is one of the most internationally diverse banks in the market. More importantly, Bank of Nova Scotia has opted for growth markets such as Central and South America rather than the safer United States.

And I believe that this reason alone makes Bank of Nova Scotia worthy of consideration. Let’s dig into the numbers.

There are 35.2 million people in Canada and five big banks to serve them, not to mention the credit unions and local banks. In Colombia, where Bank of Nova Scotia is the fifth-largest bank, there are 48.3 million people. And in Mexico, where it is the seventh-largest bank, there are 59.79 million people. On top of that, Canada is 9.9 million square kilometres, whereas Mexico is only 1.9 million square kilometres and Colombia is only 1.1 million square kilometres.

My point here is that Bank of Nova Scotia has access to far more people in a much more densely populated region. That’s a serious positive.

All in, Bank of Nova Scotia has 14 million customers in more than 10 nations with 1,800 branches. And it is continuously expanding. Last year it acquired 51% of **Cencosud SA**, the largest retail bank in Chile, which is the most advanced economy in South America. Management is predicting that its international division should add $2 billion to the bank’s profit this year.

But there are negatives to this exposure. Because these economies are not as developed as Canada and the United States, there is potential for them to experience economic shockwaves that can have negative implications for the bank. For example, Colombia is heavily dependent on oil for revenue, so with prices having dropped, many of the loans that Bank of Nova Scotia made are at risk.

Bank of Nova Scotia has lent heavily to domestic oil companies. It has $16.3 billion in drawn commitments to energy companies, which, on the surface, is a very manageable 3%. However, its uncommitted draw commitments is double that, so suddenly you're looking at a much larger percentage of the book. And credit loss provisions have increased to $150 million–many multiples greater than the previous year.

So what you have is a bank that has invested across a vast majority of countries, but it has been inundated with a much weaker energy market than many banks had predicted.

What should investors do?

All of this good and bad news can leave investors unsure about what the future holds. On the positive side, investors are getting exposure to a bank that has serious growth potential in a part of the world that is very underbanked. Further, it pays a 4.36% yield, which comes out to $0.72 per share a quarter. That yield could keep growing if earnings grow.

On the negative side, if oil prices don't start turning around, we could see many of these oil companies drawing more from their line of credit, putting more strain on the bank's balance sheet.

Because of this, I believe investors who already hold shares should continue to hold; however, if you're deciding whether or not to buy, you should wait until after the quarterly results, which will give you a better idea of how the company is doing.

CATEGORY

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2. Investing

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