



## Bank of Nova Scotia Is an Income Investor's Best Friend

### Description

Despite rhetoric from political candidates at home and abroad that free trade and globalization are bad, international markets continue to expand and gain strength, presenting unique opportunities for many of Canada's top companies.

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), one of Canada's top banks, is the most international of the Big Five banks. While there are inherent risks with this, the rewards, should the strategy continue to work, will be quite significant.

And the strategy appears to be working. In its fiscal Q2 earnings it revealed that net income in its international banking division rose by 12% year over year with a 13% increase in loans and a 19% increase in deposits. Its investments in Latin America led this charge, which makes sense because it's a part of the world that has been underbanked.

Its average assets across its international operations was \$145 billion, up \$17 billion year over year. Further, its net interest margin was 4.69%, which is how much it can earn on loans. So when you see an increase in loans made, it's easy to see earnings follow. All told, management believes that its international division will add \$2 billion in profit this year.

Consider this: there are 122.3 million people in Mexico, 47.12 million in Colombia, 30.38 million in Peru, and 17.62 million in Chile. In Canada, however, there are only 35.7 million people. By targeting just four countries, Bank of Nova Scotia gains access to over 200 million potential customers—far superior to the 35.7 million it can target in Canada, in which there are four other big banks and many smaller entities.

And let's not forget that Bank of Nova Scotia is still the third-largest bank in Canada. Its net income from its Canadian banking business line was \$977 million in the second quarter—up \$148 million year over year.

There are, of course, risks for Bank of Nova Scotia that are important to talk about. Many of the international markets it operates in are less developed than Canada, so if the economies start to cool, it could have a serious impact on earnings.

On the domestic side, it has \$16.3 billion in drawn commitments to energy companies. While a 3% exposure to the space isn't all that bad, there's a difference between drawn commitments and total potential commitments. Its undrawn commitments are double what's been drawn, so you're looking at nearly \$17 billion in potential loans to energy companies. Should those losses compound, it could hurt earnings.

Fortunately, I don't believe this will have a significant impact on what matters most right now: generating significant income for investors.

The company currently pays a 4.32% yield, which comes out to \$0.72 per share, per quarter. What I particularly like is that dividends have been growing pretty consistently for the past 10 years. For example, in 2005 it paid \$1.32 per share to investors. In 2015 it paid \$2.72, and this year it'll pay \$2.84. The 7% compound annual growth rate for its dividend growth is quite attractive.

I believe investors should look to acquire shares of Bank of Nova Scotia primarily because the dividend is so significant. And if its earnings in its international business continue to grow, the dividend could see continuous growth.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

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

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