Why Bank of Nova Scotia Is Positioned for Growth

Description

Canada's banks have been catching a lot of bad press lately. The prolonged slump in crude and fears of a housing bust continue to see them garner negative attention with some pundits going as far as to blame them for the parlous state of Canada's economy.

Nonetheless, they continue to perform strongly, and one surprise result from the latest round of bank reporting was from **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

Despite having the largest exposure to oil of any of Canada's major banks, it managed to beat market expectations with third-quarter 2016 earnings per share being almost 5% higher than the median analyst estimate. Even with the risks that abound in Canada's economy, there are signs that the bank will continue to perform well.

Now what?

One of Bank of Nova Scotia's primary strengths is its considerable exposure to emerging markets in Latin America, where it has built a sizable operating footprint in the rapidly growing economies of Mexico, Colombia, Peru, and Chile.

Whereas economic growth in Canada is languishing because of the impact of sharply weaker crude and the Fort McMurray fires, growth in those countries is surging ahead.

Colombia, where Bank of Nova Scotia is the fifth-largest bank, saw its GDP expand by 2% for the second quarter 2016. Even more surprising was Peru; because of its dependence on the extraction and export of metals, Peru has suffered from the slump in commodities. Nevertheless, for the second quarter, its GDP expanded by 3.7%, or almost double that of Colombia.

Bank of Nova Scotia is making considerable headway in these countries.

Rapidly growing populations, increasing wealth, favourable business conditions, and expanding middle classes have all worked together to create an environment where demand for credit and other financial products is growing.

Furthermore, Colombia and Peru have historically been under banked. It is estimated that in Colombia, only a fifth of the population has credit cards and about a third has no access to any formal financial services, whereas the numbers in Peru are even worse. This coupled with expanding wealth creates a ready-made market for Bank of Nova Scotia to exploit.

These are among the key reasons for the improving performance of its international business.

For the third quarter 2016, net income from International Banking grew by a staggering 21% compared with a year earlier; this makes up almost a third of Bank of Nova Scotia's bottom line. This can be attributed to strong growth in lending and profitability with its net interest margin growing by two basis points during the quarter to be almost double that of its Canadian business. Unsurprisingly, the majority of that growth came from Latin America, where loans shot up by a very healthy 9%.

The end result was that Bank of Nova Scotia's bottom line popped by a very impressive 6% year over year, allowing it to reward investors with yet another dividend hike. This is the sixth straight year in which the bank has hiked its dividend, giving it a tasty 4% yield.

So what?

Bank of Nova Scotia continues to impress with solid results despite Canada's weak economy. This is because of its exposure to a number of rapidly growing Latin American emerging markets. More importantly, the solid growth in its international business will continue, particularly with commodities edging higher in recent months. And considering its steadily growing dividend, Bank of Nova Scotia should form a core holding in every portfolio.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

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