



Like Bank of Nova Scotia? Then You'll Love This Stock

Description

As far as many investors are concerned, there's really only one reason to own **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), and that's the company's Latin and South American expansion plans.

Bank of Nova Scotia is still a formidable competitor in Canada, of course. It has had some nice successes in the world of credit cards, especially its SCENE cards. More than eight million Canadians are SCENE members, collecting points to exchange for free movies and snacks at **Cineplex** theaters.

The company also works with mortgage brokers, which gives it access to a greater number of potential borrowers than using its branch network alone. These mortgage customers can then be sold other financial products.

Still, the international operations are the main draw for many investors. Approximately 30% of net income comes from operations in Mexico, Chile, Colombia, Peru, and other Latin American countries. Altogether, Bank of Nova Scotia's international banking division has 14 million customers, more than 1,800 branches, and assets approaching \$100 billion.

Growth has been strong in the international division with net income growing from \$1.08 billion in 2010 to \$1.85 billion in 2015—an increase of 11% per year. With more and more citizens in these developing nations needing banking services, investors expect earnings from this region to continue growing at a nice pace.

Some investors are in the unique position of being bullish on Bank of Nova Scotia's international operations and bearish about its Canadian business. Canada is suffering from low commodity prices and real estate that many think is firmly in bubble territory. Many economists feel our economy is in for a prolonged period of tepid growth.

Investors could use Bank of Nova Scotia to get access to faster-growing markets, but the company's Canadian operations still dwarf its international assets. Additionally, management may choose to pause overseas growth in such a scenario, choosing instead to acquire value-priced assets at home.

Instead, people looking for exposure to faster-growing South American economies may be better suited to go directly to the source.

Bancolombia

Bancolombia SA (ADR) ([NYSE:CIB](#)) is Colombia's largest bank and one of the largest banks in Latin America. Most of its operations are located in Colombia, but it also has close to 400 branches in Guatemala, Panama, El Salvador, and the Cayman Islands. It is the largest bank in El Salvador and the second largest in Panama.

To put the size of Bancolombia into perspective for Canadian investors, it is approximately three times as large as **Canadian Western Bank**.

One of the most attractive parts of owning Bancolombia is the company's valuation. Even though the Colombian economy is struggling somewhat—the nation is one of Latin America's largest oil producers—the company is still delivering solid profits. Shares trade at less than 12 times trailing earnings.

From a price-to-book value perspective, it's also cheaper than most Canadian banks. Shares currently trade at about 1.3 times book value compared to 1.6 times book value for Bank of Nova Scotia.

Canada recently made headlines for how indebted our population is. The average Canadian owes \$1.68 for every dollar in disposable income. Additionally, our debt-to-GDP ratio just passed 100% of GDP.

Compared to Canadians, Colombians have very little debt. At the end of 2015 the country only had a debt-to-GDP ratio of 47.8%. Yes, Latin America has higher interest rates than North America, but economies in the region are also growing much faster.

One good thing about higher interest rates are higher net interest margins. Thus far in 2016 Bancolombia has reported net interest margins of more than 6%. Canadian banks have net interest margins closer to 2%.

I'm the first to admit there's more risk buying a pure-play Latin American bank than buying Bank of Nova Scotia. But with the region's economy poised to grow faster than Canada's, a cheaper valuation, and a dominant position in several markets, Bancolombia is poised to perform well. It's up to each individual investor to decide if they want total exposure to Latin America or just a little exposure.

CATEGORY

1. Bank Stocks
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3. Investing

TICKERS GLOBAL

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

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