



## Bank of Nova Scotia's International Strategy Is Finally Paying Off

### Description

Canada's Big Five banks continue to perform strongly, shrugging off fears of an overheated property market, rising household debt, and weak economic growth, reporting a combined 20% increase in net profit during the latest reporting season.

One standout performance was **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), which reported an impressive 11% year-over-year increase in net income for the second quarter 2017. While naysayers claim that Canada's big banks are due for a fall, there are signs that Bank of Nova Scotia is positioned to continue growing at a solid clip.

### Now what?

A key driver of Bank of Nova Scotia's solid results was its global banking and markets business, which reported an astounding 60% increase in net income. This incredible bottom-line growth can be attributed to solid results across its trading and corporate lending businesses as well as improving credit quality.

The sharp increase in equities-related activity can be attributed to a substantial expansion in stock trading by clients, which was responsible for 40% of the growth in earnings. That increased trading activity occurred because of greater optimism surrounding corporate earnings and equities markets, which was triggered by Trump's ascension to the White House and his planned fiscal stimulus.

The renewed enthusiasm surrounding stocks pushed the **S&P/TSX Composite index** to record highs earlier this year.

Another important driver was the growing momentum of Bank of Nova Scotia's international banking business. For the second quarter, it experienced a solid 19% growth in net income — driven by higher margins and strong credit growth.

This business possesses considerable potential and has been one of the biggest investments the bank has made in its future.

Unlike the other Big Five banks, Bank of Nova Scotia elected to invest heavily in establishing a credible international presence, which is focused on the rapidly growing Latin American economies of Colombia, Peru, Mexico, and Chile.

For the second quarter, retail loans in Latin America shot up by 11% year over year — a little more than double the growth experienced by Bank of Nova Scotia's Canadian banking business.

Such strong growth will continue for the foreseeable future.

You see, those economies are highly dependent on commodities, particularly oil, copper, zinc, and precious metals to drive GDP growth. The recovery in metals prices and higher crude has sparked a surge in economic activity in the region. Firmer prices are expected to remain in play for at least the immediate future, boding well for greater rates of growth in Latin America.

Margins for Bank of Nova Scotia's international business are growing. The second-quarter net interest margin was 5%, which is a 31-basis-point increase over the same period in 2016. This was driven primarily by higher Central Bank rates internationally.

Importantly, credit quality within that business remains strong; as does the credit quality for its total loans under management. At the end of the second quarter, net impaired loans amounted to less than half a percent of total loans under management, which was the same as a year earlier.

Because of its exposure to Latin America's rapidly growing economies, expanding middle class, and young populations, Bank of Nova Scotia's international business will continue to grow strongly for the foreseeable future.

### **So what?**

These solid results in what can be characterized as a difficult operating environment bode well for Bank of Nova Scotia to deliver a healthy 2017 result. They also increase the likelihood of yet another dividend hike from the bank, which has boosted its annual dividend for the last six years; investors enjoy a tasty 4% yield.

### **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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