



Bank of Nova Scotia: Your Doorway to International Banking

Description

When looking at Canada's Big Five banks, it can sometimes be a little tricky trying to determine which one to invest in. It helps to have a bit of a thesis on what you're looking for. For example, **Toronto-Dominion Bank** has growing exposure to the United States, so if you believe in that, it might be a good bank to look at. However, if you're looking for international exposure, there is no bank better than **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Many pundits were unsure about Bank of Nova Scotia's expansion primarily because smaller countries come with greater amounts of risk. We take for granted how stable our economy is in comparison to others that have experienced hyperinflation and debt crises. However, it was a move that needed to be made.

Consider populations. In Canada, there are about 36 million people and five big banks fighting for their business, not to mention the variety of local banks. And with how much land there is, people are spread out, requiring more branches.

In Mexico, there are 127 million people; in Columbia, there are 48.23 million people; in Peru, there are 31.38 million people; and in Chile, there are 17.95 million people. And these countries are smaller, so population density is greater. By moving into other markets (and this is just Latin America), Bank of Nova Scotia has an opportunity to benefit from tens of millions more people than what is available in Canada.

The strategy is absolutely working. The company had \$1.965 billion in net income attributable to common shareholders in Q2 2017. Of that, \$595 million came from its international business. This is up 19% from Q2 2016 and demonstrates that it's generating greater interest on loans and seeing a drop in credit losses. According to its presentation, its net interest margin was 5%, up from 4.69% in Q2 2016. All told, Bank of Nova Scotia saw an increase in deposits by 10% and an increase in loans by 3%.

This growth is going to be necessary because, to some extent, it's going to become increasingly difficult to generate growing returns from the Canadian business. Bank of Nova Scotia saw a \$6 million decrease in net income to \$971 million, a 1% drop compared to Q2 2016. Although the bank saw an

increase in deposits, it also had higher non-interest expenses and provisions for credit losses. Nevertheless, a 1% drop isn't the end of the world; on a year-to-date basis, net income is still up \$100 million, or 5%, from last year.

What all of this demonstrates is that Bank of Nova Scotia is a great way to gain exposure to international banking; specifically, Latin America, a part of the world that is experiencing economic growth. Thanks to the bank's forward-thinking approach, it now can benefit from this growth. That includes rewarding investors with a growing dividend. In Q1, the company announced an increase in the dividend from \$0.74 to \$0.76, so investors are earning \$3.04 annually.

I believe that Bank of Nova Scotia is a great investment. There are obvious risks when dealing with international banking, but I believe Bank of Nova Scotia has done a good job building on its opportunities while limiting the downside.

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Date

2025/08/16

Date Created

2017/06/28

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