



Bank of Nova Scotia Has the Best Long-Term Growth Potential of the Big 6

Description

Fears of a housing meltdown, the growing indebtedness of Canadian households, and a weak economic outlook have all contributed to the belief that Canada's banks are facing a dismal future.

As a result, two of the Big Six, **Toronto-Dominion Bank** and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), have attracted considerable attention from short sellers. For these reasons, many investors, to their detriment, have overlooked the major banks as an investment.

While there are certainly headwinds ahead for Canada's banks, the outlook is not as gloomy as many pundits believe. One of the best long-term investments available at this time is Bank of Nova Scotia.

Now what?

Canada's third-largest bank by assets is also the nation's most international bank, operating in 55 countries globally with a specific focus on the fast-growing region of Latin America. That means that its growth prospects are not constrained by the limitations of Canada's financial services market. An oversaturated market, high levels of household debt, a weaker economy, and stricter prudential regulation have all limited the growth potential that exists domestically.

Other banks have been to reconsider their growth strategies; even the once domestically focused **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) is expanding south of the border. Earlier this year, it completed the \$4.9 billion acquisition of Chicago-based PrivateBancorp and just recently made the \$200 million Geneva Advisors purchase.

Bank of Nova Scotia's long-term strategy of expanding into Latin America is paying off. Over the last decade, the bank has established a solid presence in Mexico, Colombia, Peru, and Chile to now see its international operations producing almost a third of its net income.

As its fiscal second-quarter 2017 results show, that investment is now paying considerable dividends for the bank. Net income from international banking grew by an impressive 17%.

A key driver of this was a solid uptick in loans, particularly commercial loans, as increasing wealth and

stronger economic growth in emerging markets drove higher demand for credit.

Notably, credit quality for commercial loans in its international business has improved significantly, despite the uptick in the volume originated. For the second quarter, the value of impaired commercial loans dropped by a massive 33% compared to a year earlier. Bank of Nova Scotia's international business is also more profitable than its Canadian operations, generating a second-quarter net interest margin of 5%, which is more than double the 2.4% earned in Canada.

The solid growth of the bank's international operations will continue at a decent clip.

You see, Latin America, which makes up most of its international exposure, is experiencing an economic revival with the economic outlook for Mexico, Peru, and Chile improving markedly because of higher base and precious metals prices.

Even Colombia, where the economy has been weighed down by the prolonged slump in crude, is expected to experience greater rates of growth because of improving consumption, an expanding manufacturing sector, and growing tourism. That is important for Bank of Nova Scotia because it is the Andean nation's seventh-largest lender.

There are also considerable organic growth opportunities in Latin America because many countries are significantly underbanked. As those nations develop and as wealth grows, the demand for financial services will expand substantially.

So what?

While in the past, many pundits derided Bank of Nova Scotia's expansion into Latin America because of fears over the regions higher degree of geopolitical risk, what is becoming increasingly clear is that this exposure has given the bank an edge over its more Canadian-focused competitors. This makes it my preferred Canadian banking investment.

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