



Is Bank of Nova Scotia a Good Buy?

Description

All of the major banking stocks are looking more appealing thanks to interest rates moving up in Canada. The recent 25 bps hike to 0.75% in July was the first increase in many years. Financial analysts believe an additional hike could be coming later in the year.

Naturally, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) looks to benefit from this increase in interest rates. The math is very simple; as interest rates increase, the spread between what the bank has to pay for savings and what it can earn from lending increases. This increases margins, thus allowing banks to generate greater profits. And after years of year-over-year profit growth, this could be the adrenaline these banks need for another boost.

However, my focus for Bank of Nova Scotia isn't on its Canadian holdings, although those are certainly appealing. Rather, my focus is on its international holdings. Unlike its competitors, which have focused on Canadian and U.S. operations, Bank of Nova Scotia has moved aggressively into Central and South America. This is a huge win for the bank because interest rates are much higher in these parts of the world.

Consider this: Bank of Nova Scotia is one of the top five banks in Columbia, which has a population of 48.6 million (compared to Canada's 36.3 million). However, unlike the 0.75% interest rate that Canadian's pay, the interest rate in Columbia starts at 5.5%. Many of Columbia's major geographic areas, including Peru and Mexico, sport interest rates of 7% and 3.75%, respectively.

The numbers show this strategy paying off. In Bank of Nova Scotia's most recent quarter, its international segment delivered \$595 million in net income — a 19% increase over the same quarter last year. Canada's segment was higher at \$971 million, but it was also stagnant, losing 1%. Although I expect earnings to be a little greater in Canada thanks to the boost, the reality is simple: the bulk of the bank's growth is going to come from its international holdings.

So, the question we have to ask is, "Is Bank of Nova Scotia a good buy?"

I am a big fan of the bank and have been for years. The Central and South American economies are growing. As that growth continues, the citizens there are going to need strong banking partners. And

compared to the United States and Canada, it'll take a long time for the Bank of Nova Scotia to generate the kind of margins that it is able to in these parts of the world.

On top of that, the company pays nearly 4% in yield — good for \$0.76 per quarter. It has consistently increased the dividend every year for the past six years, so I expect this growth to continue so long as its international segment continues experiencing growth.

However, there is also risk associated with investing in these parts of the world. The GDP per capita in Canada is US\$42,000. The GDP per capita in Columbia is US\$5,805. Said another way, these nations are still developing, so it's never a straight line of growth.

Ultimately, I remain bullish on Bank of Nova Scotia and believe you should pick up shares. It's not as cheap as it was a year ago, but the opportunities are still significant, and the growth is clear.

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