Should Bank of Nova Scotia Shareholders Be Concerned About its Big Bet on Pro Hockey?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) CEO Brian Porter must be a hockey fan, because he's plunking down $800 million on behalf of the bank for the naming rights to what's become known to Toronto-area sports fans as "The Hangar."

Air Canada reportedly paid $4 million per season for the rights to Toronto's new arena when it opened in 1999. Today, Bank of Nova Scotia is willing to pay 10 times that to capture the finances of Canadian hockey fans.

Good idea

Bank of Nova Scotia did the deal as part of its overall strategy to be "the bank of hockey" in this country. Given our passion for the game, you can't help but agree that a marketing plan focused on grabbing market share with hockey fans is a smart one.

"Hockey is a key driver of our brand health," Jacquie Ryan said, Bank of Nova Scotia's vice president of sponsorship and philanthropy. "The reach of a hockey sponsorship portfolio in Canada is significant."

Bank of Nova Scotia's research suggests that hockey fans are three-and-a-half times more likely to consider the bank's services if they are aware of its support for community hockey programs.

"Scotiabank supports more than 8,000 Canadian kids' community hockey teams," stated the press release announcing the bank's naming rights. "This partnership will enrich that support in the Greater Toronto Area, and will help to expand community hockey programs for youth across the country."

It seems the bank is planting its flag in the southern Ontario marketplace.

According to MLSE, up to eight companies put in actual offers for the naming rights, with Bank of Nova Scotia coming out on top. It's possible that the bank's offer was as high as it was to keep its big-bank competitors off the score sheet, as it were.

Bad idea

Bank of Nova Scotia just announced third-quarter earnings of $1.66 per share, 7.8% higher than a year earlier. The 12-cent increase itself works out to $145.7 million based on 1.21 billion shares outstanding. That's almost four times the annual cost ($40 million) for the naming rights.

The $40 million per year is peanuts for the bank. That's not in dispute. The problem, as I see it, is two-fold.

First, the banks continue to reduce their labour forces through increased automation, putting hard-working Canadians out of work at a time when the economy is starting to improve, leaving some to wonder if this $800 million is nothing more than an effort to gloss over the unpleasantness of job terminations.

In other words, they'll be glad to invest millions annually in community hockey and MLSE, if it means hockey fans turn around and give them billions in new assets, revenues, and profits.

It's a dirty business, banking, but a profitable one.

Second, the last time I checked, competitive hockey was almost as devastating on the human brain as football, which means if you're a shareholder in Bank of Nova Scotia, you might want to consider the bank's increased liability due to its ties to hockey.

"If your child plays any of these high impact, high contact, coalition sports and receives repeated blows to the head … your child is more likely to die before the age of 42 through violent means," Dr. Bennet Omalu, the physician who coined the term Chronic Traumatic Encephalopathy back in 2002, recently told *The Current*'s host Megan Williams.

He goes on to ask Williams why anyone who loves their sons and daughters would intentionally expose them to the risk of permanent brain damage.

Why, indeed?

Frankly, **Bank of Montreal** has the right idea focusing on soccer and basketball, two sports not nearly as devastating to the brain.

Bottom line

There's a lot to like about Bank of Nova Scotia's business, but its support of hockey, in my opinion, is not one of them, especially not to the tune of $800 million.

But, hey, it's not their money, is it?

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Date
2025/08/27
Date Created
2017/09/06
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