



I Have My Eye on Bank of Nova Scotia and You Should Too

Description

There's a reason so many investors covet bank stocks. They're massive financial institutions that are at the very bedrock of Canada. And with the Big Five controlling such massive power, owning at least one — but sometimes many — can be a smart strategy. In particular, you want to own the ones that offer a unique opportunity that differentiates it from the others.

One such bank is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). Compared to the rest of the Big Five, Bank of Nova Scotia is the most internationally diversified, having invested billions in growing its exposure in other parts of the world — and in particular, Central and South America.

This strategy has worked out nicely for Bank of Nova Scotia because interest rates in this part of the world are much higher. Bank of Nova Scotia is one of the top five banks in Columbia with a population of 48.6 million, which is about 12.3 million more than Canada. Unlike Canada, though, which has an interest rate of 0.75%, Columbia's interest rate starts at 5.5%. In Peru and Mexico, where Bank of Nova Scotia also operates, interest rates are 7% and 3.75%, respectively.

When you have interest rates that are that high, the potential profit margins are significantly greater. In Q3, net income attributed to international banking was \$614 million, up \$87 million, or 16%, over the same quarter last year. And year to date, net income is \$1.785 billion, up 17% in the same period last year. The reality is, Bank of Nova Scotia is earning solid returns from its investments in this part of the world.

That being said, there are obvious risks with investing in these parts of the world. The GDP per capita in Canada is US\$42,000; in Columbia, it's only US\$5,805. Therefore, these economies are still developing. It's not unlikely that on their way to being far more developed, you'll feel as if you're on a bit of a roller coaster.

But that's why Bank of Nova Scotia continues to invest in Canada, where it is also executing rather well. Net income increased by 12% to \$1.045 billion in the quarter, with year-to-date net income of just under \$3 billion. With deposits and loans increasing, Bank of Nova Scotia is continuing to generate more overall income.

Ultimately, what you've got is a bank that is executing flawlessly on its strategy of investing in underserved international markets. And that's one of the major reasons you want to buy it. How else would you gain exposure to Central and South America? With Bank of Nova Scotia, you get all of that.

You also get a great dividend. Because of how strong earnings were, management increased the dividend by \$0.03 per share, which is a 7% increase from last year. And with where shares are trading, you can get a 3.9% yield, which is comparable to its competitors.

It can sometimes feel a little daunting trying to determine which of the Big Five bank stocks you should own. They all pay solid yields and, because of their size, they're able to generate strong returns on a yearly basis. However, you want to try to pick out the unique identifiers about the banks. If international exposure is important to you, then Bank of Nova Scotia is the right play.

CATEGORY

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