Bank of Nova Scotia Is Expanding in Latin America: Should You Buy?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) just announced plans to bulk up its presence in Chile.

Let's take a look at Canada's most international bank to see if this is a good time to buy the stock.

Pacific Alliance growth

Bank of Nova's Scotia's international expansion is primarily focused on Chile, Mexico, Colombia, and Peru. The company has spent billions in recent years to build a strong presence in the four countries, and that trend looks set to continue.

The bank just announced a $2.9 billion bid to acquire a majority position in BBVA Chile in a move that would make Bank of Nova Scotia the third-largest non-state-owned bank in the South American country. BBVA Chile has 4,000 employees working at more than 120 branches.

Bank of Nova Scotia hopes to settle the purchase in the coming months and close the deal in mid-2018.

Chile, Mexico, Peru, and Colombia form the core of the Pacific Alliance, which is a trade bloc set up to enable the free movement of goods and capital among the member markets.

Earnings

Bank of Nova Scotia reported fiscal Q4 2017 net income of $2.07 billion, or $1.64 per share on a diluted basis, compared to $2.01 billion, or $1.57 per share in the same period last year.

The Canadian banking operations saw net income jump 12%, but 7% of that came from gains on the sale of HollisWealth. Business loans rose 13% in the quarter compared to fiscal Q4 2016, and deposits increased 3%.

Net income in the international operations rose 11%, supported by 15% loan growth in Latin America. Deposits rose 7% in the division, and expenses dropped 1% compared to the same period last year.

The global banking and markets division, which includes the investment banking and trading operations, had a weak quarter compared to the previous year. Net income slipped 15%.

For full-year fiscal 2017, Bank of Nova Scotia generated net income of $8.243 billion, representing an 8% increase over 2016.

Risks

Some investors are concerned that a pullback in the Canadian housing market could hit the banks. It's true that a total meltdown would be negative, but most analysts predict a gradual decline in prices.

Bank of Nova Scotia finished fiscal 2017 with $206 billion in Canadian residential mortgages. Insured mortgages represent 49% of the portfolio, and the loan-to-value ratio on the uninsured loans is 51%. This means house prices would have to fall significantly before Bank of Nova Scotia had a material impact.

The bank's capital position is very strong, with a CET1 ratio of 11.5% as of Oct. 31, 2017.

Dividends

Bank of Nova Scotia raised its dividend by 6% this year. The company has a strong track record of dividend growth, and that trend should continue.

The current payout provides a yield of 3.9%

Should you buy?

The Pacific Alliance market is home to more than 200 million consumers. As the middle class grows, demand for loans and investment products should increase, and Bank of Nova Scotia is well positioned to benefit.

If you are looking for a top-quality Canadian dividend stock that gives good emerging market exposure, Bank of Nova Scotia deserves to be on your radar. The shares are not as cheap as they were early last year, but the bank still trades at a discount to its larger Canadian peers.

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