Bank of Nova Scotia: Growth Through Acquisitions

Description

Acquisitions oftentimes fail. Management sees an opportunity, and before building an acquisition and integration plan, the company is making offers and buying up assets. This inevitably results in the erosion of shareholder value and poor corporate morale. But that doesn't mean all acquisitions are bad.

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Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has been making a series of acquisitions, getting aggressive with its growth through deal making. But if you look at the types of deals the bank has been making, they fit within the company's overall strategy.

Bank of Nova Scotia has been investing in is its international expansion — and for good reason. Compared to the +1% interest rates here in Canada, interest rates start at 2.5%, 5.5%, 3.75%, and 7% in Chile, Colombia, Mexico, and Peru, respectively. And with populations far greater in these markets than in Canada, the opportunity is immense.

At the end of January, Bank of Nova Scotia announced that its Colombian subsidiary Banco Colpatria Multibanca Colpatria S.A. had agreed to purchase the consumer and small and medium enterprise operations of **Citigroup Inc.** in the country. This will add 500,000 new customers to the bank.

In November, Bank of Nova Scotia agreed to buy the Chilean subsidiary of **Banco Bilbao Vizcaya Argentaria** for US$2.2 billion, making Bank of Nova Scotia Chile's third-largest privately owned bank. Chile is one of the stronger economies in South America, so this deal should contribute quite significantly to the bank's long-term international growth.

But it's not just geographic growth that Bank of Nova Scotia has had its eye on.

The bank has been looking for ways to increase its earnings diversity by boosting wealth management business to 15% from 12%. With one deal, it has likely achieved that. Bank of Nova Scotia announced that it was purchasing Jarislowsky Fraser (JF) for $950 million, adding close to $40 billion in assets to its book. This effectively adds 33% to its book, giving it $160 million to manage.

This deal is smart for two reasons. First, the wealth management business generates fees for the bank, which will boost earnings. And second, JF's clients are institutional in nature — pension funds, corporations, and high-net-worth individuals — so this adds a new level of diversity to Bank of Nova Scotia, which has previously focused primarily on retailers.

The market reacted to this news negatively primarily because the bank will issue additional equity capital. However, I believe that the market has, as is typical, overreacted, providing an opportunity for investors.

It’s been a busy few months for the M&A team at Bank of Nova Scotia, but these deals all have a common acquisition and integration plan. The first two discussed help expand in key international markets, adding more infrastructure and customers. The last acquisition adds more assets to its wealth management division and expands into institutional client management.

It’s no secret that Bank of Nova Scotia is a particular favourite of mine. I’ve written about the bank for years, and investors that have held have done quite nicely. By purchasing today, investors are picking up shares at a yield of a little over 4%. And with growth coming both organically and through smart acquisitions, investors are likely to do well.

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