



Latest Results Highlight Why This Bank Should Be in Every Portfolio

Description

Despite attracting considerable negative publicity recently amid fears of a lack of growth opportunities for Canada's banks, Canada's big banks are once again reporting solid results. Among them was **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) solid first quarter results, which gave Canada's most international bank a strong start to the year. Every indication points to continued strong results over the course of 2018.

Now what?

Bank of Nova Scotia's recent success lies in its international banking operations. The bank invested heavily in establishing a sizable footprint in Latin America, with a focus on the Pacific Alliance nations of Mexico, Colombia, Peru, and Chile.

Solid loan and deposit growth in Latin America supported a 16% year-over-year increase in net income for international banking. This, along with a 12% increase in net income from its Canadian banking business, gave bank-wide net income for the quarter an impressive 16% boost compared to a year earlier.

Bank of Nova Scotia has been busy deploying capital to [make acquisitions](#) over the last six months.

At the end of 2017, Bank of Nova Scotia entered into a US\$2.2 billion agreement to acquire Spanish bank **Banco Bilbao Vizcaya Argentaria S.A.'s**, or BBVA, stake in its Chilean subsidiary. It then followed up with an announcement that it intended to acquire **Citigroup Inc.'s** Colombian consumer and small-to-medium enterprise banking business.

Finally, in mid-February 2018, Bank of Nova Scotia announced that it had entered a \$950 million deal to buy Montreal-based independent investment firm Jarislowsky Fraser. When successfully closed, the deal will significantly bolster the bank's wealth management business, adding \$40 billion of funds under management to create Canada's third-largest asset manager.

These deals will further diversify Bank of Nova Scotia's business, thereby enhancing its products and services. The first two deals will significantly bolster its footprint in Latin America, including Chile, the

region's most advanced economy.

Meanwhile, the last acquisition expands the bank's ability to serve the banking, advisory, and investment needs of high-net worth clients.

Of some concern, however, is the deterioration of Bank of Nova Scotia's credit portfolio. For the first quarter, the value of net impaired loans came to 0.63% of total loans and acceptances, which is 20 basis points higher than the previous quarter and a 14-point increase year over year. This was driven by a marked rise in the volume of past due commercial and corporate loans in Bank of Nova Scotia's international business, where the fallout from the economic slump in Latin America continues to impact its balance sheet.

Nonetheless, investors should understand that loan delinquencies take some time to appear and typically lag behind economic downturns. With Latin America, notably Colombia, Peru, and Chile experiencing a [strong economic upswing](#) because of firmer commodity prices, it is thus unlikely that this trend will continue.

It should also be noted that despite a higher impaired loan ratio, the value of provisions has fallen by almost 2% year over year, thereby indicating that the bank is confident that the worst is over.

So what?

Bank of Nova Scotia remains one of the best core investments for any portfolio. Its prudent investment in expanding into Latin America is paying considerable dividends for the bank, which means that it's less dependent on an increasingly saturated domestic market. The region's major economies are forecast to grow at a rapid rate, which means that loan growth will likely continue at a brisk clip. This will drive further earnings growth. While investors wait for that occur, they'll be rewarded by a steadily growing and sustainable dividend yielding 4%.

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