Should You Buy This International Banking Stock for its Dividend?

Description

You wouldn't think it, but the real opportunity for **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) doesn't come from its Canadian holdings, which are lucrative, but from its holdings in Latin America.

We can already see that happening thanks to the Q1 results released at the end of February. The business earned $2.337 billion, up significantly from $2 billion from last year. It earned $1.86 per share, crushing analyst expectations of $1.68 per share.

As was expected, the Canadian division contributed $1.39 billion to net income, over 50% of total net income. You'd think the United States would contribute a lot considering its size, but it was only $157 million.

It was actually Mexico, Peru, and Chile that showed the most promise. Mexico delivered $165 million, Peru delivered $164 million, and Chile delivered $100 million. This demonstrates where the real growth opportunities exist, because as Mexico, Peru, and Chile continue developing, deposits and loans should rise, thus providing greater net income.

One big reason for the lucrative net income is interest rates. In Canada, interest rates are only around 1%, but they are 2.5% in Chile, 3.75% in Mexico, and 7% in Peru. So, the opportunity is far greater in those countries.

And the bank is doing what it can to encourage this growth. Bank of Nova Scotia has been making a series of acquisitions to bolster its Latin America holdings.

In November, Bank of Nova Scotia announced its intent to pay US$2.2 billion for the Chilean business owned by **Banco Bilbao Vizcaya Argentaria**. This deal makes Bank of Nova Scotia the third-largest privately owned bank in Chile.

The bank is also expanding in Colombia with the announcement that its subsidiary, Banco Colpatria Multibanca Colpatria S.A., would be buying the consumer and small and medium enterprise operations of **Citigroup Inc.** in the country. In Colombia, interest rates are 5.5%, so this is another big win for the bank.

What should be clear by now is that Bank of Nova Scotia is very serious about investing in these underdeveloped economies. And if things work out well, the opportunity is significant.

The thing is, these economies bring more risk. The economies are still developing, so there are likely to be hiccups. And while interest rates are great, the incomes in these countries are weaker than in Canada.

For example, in Chile, which is one of the strongest, the Gross National Income per capita is US$23,270. In Canada, it’s US$43,420. So, the average Canadian is earning over US$20,000 more than the average Chilean.

Ultimately, though, I believe this makes it possible for Bank of Nova Scotia to be a great dividend stock. In the quarter, management announced a 3% increase in the dividend, giving investors $0.82 per quarter. And year over year, the dividend is up 8%.

I believe investors should buy this stock. The dividend is lucrative (though just shy of 4%) and the international exposure should put it in a great position to continue growing that dividend.

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