Bank of Nova Scotia: The Best Positioned Canadian Bank for Growth

Description

Canada's banks continue to garner considerable negative attention with **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) being the second most shorted stock on the TSX. While there are a range of potential headwinds arising for the banks, including slower than expected economic growth, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is well positioned to avoid them and grow at a solid clip.

Now what?

Key to Bank of Nova Scotia's success in recent years has been its significant investment in expanding its banking franchise in Latin America, which sees it ranked among the top 10 banks in Mexico, Colombia, and Peru.

It also continues to seek out opportunities to expand in the region, having inked a deal with Spain's **Banco Bilbao Vizcaya Argentaria SA** (BBVA) to acquire a controlling stake in its subsidiary, BBVA Chile. That deal will make Bank of Nova Scotia the third largest privately owned bank in what is regarded as Latin America's most advanced economy while doubling its share of Chile's $390 billion banking market.

On completion, this will give the bank's earnings a healthy lift, particularly as Chile's economy continues to expand at a solid clip because of firmer copper and other commodity prices.

Bank of Nova Scotia has committed to bolstering its footprint in the South American nation of Colombia, where the economy is also benefiting from the recovery in oil, metals and coal. The bank has agreed to acquire Citibank's Colombian consumer and small-to-medium enterprise operations, which will boost its presence in the Andean nation, where its subsidiary, Banco Colpatria is the fifth largest bank. Those deals on completion will give net earnings for Bank of Nova Scotia's international banking division, which generates almost a third of its net income, a solid lift.

That business has experienced strong growth in recent years. Net interest income for the first quarter 2018 grew by 6% year over year, underpinned by solid loan growth in Latin America, while net income grew by an impressive 14%. Because of higher headline rates in the region coupled with renewed economic growth, Bank of Nova Scotia's Latin American operations have the potential to be exceptionally profitable

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Notably, the bank is well capitalized, with a common equity tier 1 capital ratio of 11.2%, which is higher than many of its peers, including Toronto-Dominion, which ended the first quarter 2018 with a ratio of 10.6%. Bank of Nova Scotia also possess a high-quality loan portfolio, which has a gross impaired loan ratio of almost 1.1%, slightly lower than a year earlier.

Like Canada's other major banks, it has adopted a series of strategies to mitigate the fallout from a domestic economic downturn. Bank of Nova Scotia has 48% of its Canadian residential mortgage portfolio insured, while those that are uninsured have a conservative loan to valuation ratio of 53%. This allows it to reduce the direct impact of any significant uptick in mortgage defaults while also creating substantial wiggle room to renegotiate uninsured mortgages.

So what?

Bank of Nova Scotia's international operations are poised to grow at a rapid clip because of the economic upturn in Latin America, where it has focused on developing that business. By investing in Bank of Nova Scotia, investors can geographically diversify their portfolio without leaving the comfort of Canada. As international earnings grow, it will give the bank's overall bottom line a healthy boost, which will eventually translate into a higher stock price. While investors wait for that to occur, they will be rewarded by its sustainable and steadily growing dividend yielding 4%.

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