1 Top Stock to Diversify Into Emerging Markets

Description

I have been an avid proponent for investing in emerging markets for some time. It is not difficult to understand why.

You see, by boosting exposure to developing economies, investors can reduce investment risk by further diversifying their portfolios, while being able to enjoy the outsized returns that emerging markets offer. One of the best stocks in Canada that gives investors exposure to emerging markets is the nation's most international bank, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

Now what?

Scotiabank has focused on building a substantial business footprint in Latin America; it's become the fifth-largest bank in Colombia, the third largest in Peru, and the seventh largest in Mexico. It is also the process of expanding those operations, working on the acquisition of a 68% stake in BBVA Chile for $2.9 billion. When complete and merged with Scotiabank's existing Chilean operations, it will make the Canadian lender the third-largest bank in the Andean nation.

Scotiabank also announced at the start of 2018 that it would acquire Citibank's consumer and small to medium enterprise business in Colombia, adding 47 branches and 500,000 customers to its existing Colombian operations.

Both of those deals will give earnings from its international banking business a solid bump, particularly when it is considered that the majority of Latin America has returned to growth because of the surge in commodities, notably metals and crude. Chile's economy is forecast by the International Monetary Fund to expand by 3.4% during 2018, while Peru's will grow by an impressive 3.7%, Colombia's will be 2.7% and Mexico's will be 2.3%. That economic upswing will continue into 2019 because of firmer demand for oil and base metals, the mining of which contributes a significant portion to those nations' gross domestic product and export earnings.

The significant growth potential held by Scotiabank's international operations is evident from first quarter 2018. Net income for that division grew by 14% year over year to make up almost a third of the bank's total net earnings. That solid increase was driven by a marked uptick in lending activities, which drove net interest income 5% higher.

Scotiabank's margins from that business are greater than they are in Canada because of higher official interest rates, giving the bank's international business a net interest margin of 4.66% compared to 2.41% for its Canadian retail banking business.

As the economies of Chile, Colombia, Peru, and Mexico return to growth, there will be a solid uptick in demand for credit, leading to higher earnings for Scotiabank's international business. There are also considerable long-term organic growth opportunities when it is considered that countries such as Colombia and Peru are heavily underbanked with a large portion of the population not having a basic bank account. Demand for credit, particularly consumer credit, is expanding at a rapid clip in those Latin American nations, and this will further boost Scotiabank's earnings.

The ongoing expansion into Latin America also reduces the bank's dependence on Canada's saturated mortgage and financial services market, which has limited growth opportunities. It will also offset the impact of Canada's cooling real estate market on the lender.

So what?

Scotiabank is well positioned to experience strong growth, particularly because of its growing exposure to the rapidly expanding economies of Latin America. By investing in Scotiabank, investors can geographically diversify their portfolios without leaving the security of Canada. While patient investors wait for that to translate into a stronger bottom line and firmer share price, they will be rewarded by Scotiabank's regular dividend, which yields a juicy 4%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/05

Date Created
2018/04/29
Author
mattdsmith