Bank of Nova Scotia (TSX:BNS) Remains a Buy Despite the Turmoil in Emerging Markets

Description

The latest turmoil in emerging markets caused by a stronger U.S. dollar and rising U.S. interest rates has sent investors racing for the exits, as fears of a debt crisis arise. While this has made many companies with considerable exposure to emerging markets unappealing investments, Canada's most international bank, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), remains an attractive investment. This creates an excellent opportunity for investors, especially when those ructions have caused the bank's stock to decline by 7% in value during 2018, despite credible second-quarter results.

Now what?

Bank of Nova Scotia's second-quarter net income shot up by an impressive 11% year over year, driven primarily by a solid performance from its international banking division, where net income rocketed up by 13% compared to a year earlier. That was primarily driven by strong lending growth, particularly for business loans, which surged by 9% year over year, as well as residential mortgages and personal loans, which were up by 7% each.

What makes the performance of Bank of Nova Scotia's international operations even more impressive is that its return on equity surged by 1.5% compared to the same quarter in 2017 to an outstanding 16.3%. Growth from its international segment will continue at a solid clip, at least for the foreseeable future.

You see, the surge in commodities, notably oil, copper, zinc, lead, and gold, have been a boon for the three Latin American economies where Bank of Nova Scotia has its greatest exposure: Chile, Colombia, and Peru. All three Andean nations have returned to growth, with firmer petroleum and metals prices breathing life into their beaten-down economies. The IMF predicts that Chile's GDP will expand by 3.4% during 2018, while Colombia's will come to 2.7%, and Peru's will be an impressive 3.7%, which will trigger a greater uptake of credit and other banking products.

Contrary to claims that there is a lack of growth opportunities in Canada's domestic financial services market, the bank reported robust second-quarter results. These include net income popping by a respectable 5% and a monster double-digit return on equity of 22.7%, illustrating the profitability of Bank of Nova Scotia's Canadian retail banking business. This was supported by a five-basis point year-over-year increase in Bank of Nova Scotia's Canadian banking's net interest margin and a hefty 6% increase in the value of loans and other assets.

That strong lending growth was primarily driven by a 14% expansion in business lending, 6% growth in residential mortgages, and a 4% increase in personal loans. Business lending will continue expanding at a decent clip because of higher oil prices, which have breathed life into Canada's beaten-down energy patch and an increasingly positive outlook for the economy.

Bank of Nova Scotia's $2.6 billion acquisition of MD Financial Management, a leading provider of financial services to physicians and their families which has over $49 billion in assets under management, further enhances the bank's growth profile.

The only black marks on the bank's performance was a sharp uptick in net impaired loans, which climbed by 35% in value compared to the first quarter 2017, causing net impaired loans as a percentage of total loans to rise to 0.63%. There was also a concerning 16% increase in allowances for credit losses.

Regardless of these figures, Bank of Nova Scotia still possesses a high-quality credit portfolio with all risk indicators well within healthy limits.

So what?

Bank of Nova Scotia offers investors the opportunity to gain exposure to rapidly growing, underbanked emerging markets in Latin America while being able to benefit from the ongoing solid performances delivered by its Canadian retail banking business. While shareholders wait for the bank to unlock further value, they will be rewarded by its sustainable and regularly growing quarterly dividend, which yields just over 4%.

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Author
mattdsmith