Bank of Nova Scotia (TSX:BNS) Pulls Out of the Caribbean: Should Investors Be Worried?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) released its quarterly results earlier this week. With sales growth of 3.7% year over year and net income up by 17%, the bank reported another strong quarter.

However, that really wasn't the big news this week coming out of Scotiabank. After all, a big chartered bank continuing to rake in more profits, especially during good economic times, isn't really all that surprising or revolutionary.

Instead, what caught my attention was the announcement that the bank would be selling its operations in nine Caribbean countries, and there could be even more changes in addition to that.

In an effort to focus more on its core markets, Scotiabank is pulling out of Anguilla, Antigua, Dominica, Grenada, Guyana, St. Kitts & Nevis, St. Lucia, St. Maarten, St. Vincent & the Grenadines.

The bank's subsidiaries in Trinidad and Tobago and Jamaica are also going to sell their insurance businesses as well.

Is this a good move for the bank?

Initially, it looks like a big move by Scotiabank, especially when you hear that operations in nearly a dozen countries will be impacted. However, if we're looking at actual market size and taking into account populations and potential growth, it's not likely to have a big impact on the bank's long-term growth.

While one of the benefits of investing in Scotiabank has always been its strong diversification, there's always a danger of there being too much and a company being spread too thin. Focusing on key markets is a good idea and even with making these moves I don't see Scotiabank as being worse off for it.

I especially like the idea of moving away from insurance coverage in a part of the world that is prone to hurricanes.

Ideally, the bank would be able to have operations in the Caribbean and continue growing its global brand. However, it's important for the bank to consider costs as well and whether it makes sense to do so. Growth for the sake of growth can lead to weak financials, which is not what investors want to see.

The stock did see a bit of a jump in price on the news and the results, indicating that investors agreed that the company's performance coupled with these announcements is a net positive result for Scotiabank.

Bottom line

Scotiabank did very well this past quarter and as it divests assets from non-core operations we should see its financial results get even stronger. With fewer expenses and investment dollars being spent to pursue relatively small markets, that's likely to result in more money making it to the company's bottom line.

Scotiabank has been down more than 10% since the start of the year, even with the boost it got from its earnings releases this week, and it could be a great opportunity for investors to buy at a reduced price.

The stock generally trades at lower multiples than its peers but if it produces stronger quarters ahead, then that could translate into a much stronger share price over the long term.

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