



Can Investing Lead to Growth for This Bank?

Description

Surprisingly, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, posted the highest recent net margin of 22% among the Big Six Canadian banks. It also offers a yield that's about 7% above the peer average of about 4.26%. So, it should be worthwhile for conservative investors to consider the stock, especially for investors with a focus on income.

Although [Scotiabank](#) is known as Canada's most international bank, it still generates the core of its earnings (about 55%) in Canada, which more than covers for its dividend. It is a top 10 bank in the Americas — the seventh-largest by market cap and eighth-largest by assets. Scotiabank generates about 90% of its earnings in the Americas, including 21% in Pacific Alliance countries and 7% in the United States.



BNS data by YCharts. The long-term price action of Scotiabank, the Canadian stock market, and the U.S. stock market.

Investing for the future

Last year, Scotiabank made a number of key acquisitions. First, the acquisition of Jarislowsky Fraser (JF) added \$40 billion in assets under management and a customer base of more than 500 institutional and high-net-worth clients.

Second, the acquisition of MD Financial Management (MD) added \$49 billion of assets under management and administration and 110,000 customers (i.e., physicians and their families). With the JF and MD acquisitions, Scotiabank has become the third-largest active asset manager in Canada.

Scotiabank management has its eyes set on the wealth management segment to contribute about 15% of its earnings over the next five years. And the JF and MD acquisitions will help it achieve that.



Scotiabank's international focus has been in the Pacific Alliance region: Chile, Colombia, Mexico, and Peru. It has increased its earnings by more than 70% from this region over the last four years.

Those countries have a relatively young population and low levels of banking penetration. So, the region should contribute meaningfully to Scotiabank's medium- to long-term growth.

Last year, Scotiabank doubled its market share in Chile and became the third-largest private bank in the country when it acquired BBVA Chile, which added 500,000 customers and \$29 billion in assets to its portfolio. It also expanded its Colombian operations by acquiring **Citibank's** consumer and small and medium enterprise operations in Colombia.

Investor takeaway

Scotiabank has been making strategic acquisitions and investing for future growth. Despite the fact that the stock has popped 8% in the last month, the quality bank is still trading at about a 14% discount from its normal multiple. A year from now, the stock could trade as high as \$90 for 21% upside if things go smoothly.

No matter if the stock goes up or down, shareholders can be sure to collect a yield of roughly 4.6% that's supported by a sustainable payout ratio and [a growing dividend](#).

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