



## Q2 Earnings Preview: The International Bank

### Description

Investors are anxiously awaiting the second round of bank earnings season in 2019. Now is a great time to look at some of Canada's top banks ahead of Q2 reports. Last week, we discussed the [smallest of the Big Six banks](#) in Canada.

Today, we are going to look at the third-largest bank in Canada.

**Scotiabank** ([TSX:BNS](#))([NYSE:BNS](#)) is often called Canada's "international bank" because of its exposure to a bevy of promising global markets. Scotiabank has a presence in Brazil, Chile, China, Hong Kong, India, Singapore, and many others.

Scotiabank's first-quarter earnings report was a mixed bag, but its international banking segment managed to shore up earnings. Net income in this segment rose 17% year over year in Q1 2019 to \$782 million. The bank reported strong loan and deposit growth in the Pacific Alliance countries. Scotiabank also benefited from an additional month of earnings its Peru holdings.

Shares of Scotiabank have climbed 7.8% in 2019 as of close on May 6. The stock is still down 7% from the prior year. Scotiabank is set to release its second-quarter results for 2019 before markets open on May 28. Should investors expect an improvement from Q1 2019?

On an adjusted basis, net income fell to \$2.29 billion in the first quarter compared to \$2.35 billion in the prior year. It posted adjusted earnings per share of \$1.75 over \$1.87 in Q1 2018. Adjusting for acquisition-related costs, net income in its Canadian Banking segment fell 2% year over year. Scotiabank suffered from a softening real estate market and a prior-year gain on the reorganization of Interac.

Turbulent market conditions at the beginning of the quarter hurt Scotiabank's Global Banking and Markets segment. Net income in this segment fell 26% from the prior year to \$335 million. Conditions have improved dramatically in the second quarter of 2019, which should be a boon for all the big banks.

The domestic picture has not been as bright. Statistics Canada reported that the economy shrank in February 2019. The Bloomberg Nanos Canadian Confidence index dropped in April. This suggests that

Canadians feel worse about the broader economy in the beginning of May. The Bank of Canada has indicated that it will maintain its dovish rate path due to the current outlook, at least in the near term.

Emerging markets are also expected to [suffer from a slowdown in 2019](#). Brazil's economy has slowed to start the fiscal year. India has suffered from a decline in private consumption. China is currently locked in a high-stakes trade spat with the United States. In 2018, the International Monetary Fund (IMF) pointed out that 75% of the global economy experienced an upswing. In 2019, the IMF projects that 70% will experience a slowdown. Scotiabank's international segment will continue to be a source of strength, but slower global growth will likely weigh on earnings going forward.

Scotiabank stock is trading in the middle of its 52-week range. Its forward P/E stands at 10 as we await its next earnings release. This puts it in above-average territory relative to its competitors. Income investors have an added boon as Scotiabank offers a quarterly dividend of \$0.87 per share, which represents a strong 4.7% yield.

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