



Banking on Creating Long-term Wealth? Buy Bank of Nova Scotia (TSX:BNS) Today

Description

Over the past decade, Canada's banks have delivered a stellar performance for shareholders. While there are short-term headwinds ahead, the Big Five are will likely continue to deliver considerable value for investors over the long term. After pulling back by 7% over the past year, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), trading as Scotiabank, appears the most attractively value of the Big Five, particularly once its long-term growth prospects and juicy 5% yield are considered.

A strong international presence

Key to Scotiabank's considerable growth potential lies in its exposure to the rapidly growing economies of Latin America, notably Mexico, Colombia, Peru and Chile. Those nations have formed a trade bloc known as the Pacific Alliance that aims to promote trade in the region and has integrated the stock markets of the four member states. Between them, they have a combined population of over 210 million, generating over a third of Latin America's gross domestic product (GDP).

Canada has free trade agreements in place with all four member states and is in the process of strengthening ties with the alliance. Scotiabank is ranked as a top 10 bank in Mexico, the fifth largest in Colombia and the third largest in Peru as well as Chile. The considerable growth opportunities for Scotiabank in those nations is highlighted by their young rapidly growing populations and a growing middle class as compared **to developed markets they are heavily underbanked.**

Solid international results

Despite some [overall disappointing](#) second-quarter 2019 results, Scotiabank's international business performed strongly, further highlighting the considerable growth potential those operations hold.

Adjusted net income soared by 14% year over year compared to 4% for Canadian banking and 3% across the bank. That saw international banking responsible for around 40% of Scotiabank's adjusted net income for the quarter compared to 32% two years earlier.

That solid result can be attributed to an impressive 42% increase in loans from Pacific Alliance nations, most notably Chile, Colombia and Peru, where Scotiabank completed three acquisitions, strengthening its regional presence. This was a key driver of the 22% year-over-year increase in revenue for international banking.

A combination of stronger economic growth, higher headline interest rates and growing demand for credit in Latin American will further boost Scotiabank's bottom line.

The International Monetary Fund (IMF) has forecast that Chile's GDP will expand by 3.4% during 2019, while Colombia's will grow by 3.5% and Peru's by 3.9%, which are all more than double the 1.5% predicted for Canada. That stronger growth means that official interest rates in those countries are significantly higher than Canada, which makes Scotiabank's operations in the regional more profitable because of a higher net interest margin (NIM).

For the second quarter, Scotiabank's international division reported a NIM of 4.58% compared to 2.46% for Canadian banking.

Profitability will continue growing over the remainder of 2019 and into 2020, because as the latest round of regional acquisitions are completed, costs will fall and further synergies will be realized. For the second quarter, expenses rose by 18% year over year, which can be primarily attributed to the latest acquisitions, which means that they should start to fall over coming quarters.

The productivity ratio for Scotiabank's international operations, a crucial measure of the profitability of a bank's business, also continues to improve, falling by 0.2% year over year to 50.6% for the second quarter.

Foolish takeaway

It is also anticipated that Scotiabank's Canadian business will continue to report slow but steady growth, and that there will be an improvement in the performance of its global banking and markets division, which will boost its bottom line. While shareholders wait for this to translate into a higher market value, they'll be rewarded by Scotiabank's steadily growing and sustainable dividend yielding a juicy 5%.

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