



Key Deals Make Bank of Nova Scotia (TSX:BNS) Stock a Top Banking Pick

Description

Yesterday evening, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) announced it was selling its Puerto Rico and Virgin Island operations to Oriental Bank. The disposition will result in an after-tax net loss between \$300-\$360 million.

Why is this good news? Scotiabank has been the most active Canadian bank in terms of acquisitions. Over the past year, the company totaled approximately \$7 billion worth of acquisitions. Canada's most geographically diverse bank was buying up everything that it could get its hands on.

The problem however, was that the company grew too big, too fast. It entered challenging markets such as the Caribbean and has not effectively built-out its international operations.

It was therefore welcome news when CEO Brian Porter announced late last fall that the company was going to focus less on acquisitions and more on integration. A big part of that strategy is to dispose of assets in approximately 22 businesses or geographic markets.

Since then, it has announced deals to sell operations in the Caribbean, Dominican Republic, Jamaica, Trinidad, Thailand, El Salvador and the aforementioned Puerto Rico and Virgin Islands.

Unfortunately, the company will be taking a loss on most of these deals. Although the bank will experience a short-term hit to earnings, it paves the way for a [brighter future](#).

Canada's worst-performing banking stock

It hasn't been easy for shareholders of the company. Canada's Big Five are usually counted on to provide consistent and stable returns. This has not been the case for Bank of Nova Scotia, however. The bank's stock price has trailed its peers over the past five and two-year periods where it posted negative returns of -0.93% and -9.20%.

In comparison, [Canada's best bank](#) **Toronto-Dominion Bank** has rewarded investors with returns of 37% and 17% over the same periods.

In 2019, the company is still trailing the group average with a 4.53% return. Only **Canadian Imperial Bank of Commerce** has posted lower returns (1.72%).

At the heart of the company's issues was the poor performance of some (not all) of its international operations, which led to the company missing on earnings and revenue more than any of its peers of the past few years. It's a trend that has continued into 2019 as it has missed earnings in three straight quarters going back to the fourth quarter of 2018.

A renewed focus on profitable international operations

Bank of Nova Scotia is still committed to international operations, albeit at a lower scale. It's focusing on Latin America, and countries within the "Pacific Alliance" namely Chile, Columbia, Peru and Mexico.

In 2018, this segment saw an 18% increase in profit. In the latest quarter (second), revenue from the Pacific Alliance countries jumped by 28% and adjusted net income grew by 14% over the previous year. The segment is being boosted by the \$2.9 billion purchase of BBVA Chile, the fourth largest Chilean bank.

Patience is key

After a string of failed acquisitions, the company's renewed focus is a positive, which should enable the company to focus on profitable operations, removing some of the albatrosses that have been weighing the company down.

In the meantime, shareholders must remain patient. For those new to the game, it's looking like the opportune time to jump into the bank. Thanks to its recent underperformance it's yielding close to record highs (4.88%) which is one of the best yields in the industry. It is also trading below industry averages, and at a forward P/E of 9.32, the bank's stock is cheap.

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