



Bank of Nova Scotia (TSX:BNS): Is This Stock Too Cheap to Ignore?

Description

The share price of **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) has dropped to the point where value investors are starting to kick the tires.

Let's take a look at the current situation to see if Canada's third-largest bank deserves to be on your [buy list](#).

Risks

Bank of Nova Scotia is betting big on long-term growth in Latin America with a specific play on Mexico, Peru, Chile, and Colombia.

The four countries aren't chosen by accident; they represent the foundation of the Pacific Alliance trade bloc created to facilitate the free movement of goods, capital, and labour among its members.

Bank of Nova Scotia has invested billions of dollars on acquisitions in the four markets and continues to add to its position.

Last year the bank spent US\$2.2 billion to acquire a majority stake in BBVA Chile. The move doubled Bank of Nova Scotia's market share to about 14% in that country.

These countries have histories of economic volatility, which might be one reason why investors are not willing to pay as much for Bank of Nova Scotia as they are for its larger Canadian peers. Although the four markets are in much better shape than in the past, they still present risks.

Chile is considered the most stable economy in South America, and the country has enjoyed strong growth in the past 20 years. Along with its neighbour, Peru, the country remains vulnerable to external risks, especially in the base metals markets due to the heavy reliance on copper mining.

Colombia has shown solid fiscal discipline in recent years. As long as the peace agreement with the FARC holds up, investment and growth should continue.

Colombia relies heavily on oil production and needs to diversify the economy. The recent flood of refugees from Venezuela is also posing some challenges.

Mexico is at risk of an economic slowdown as business confidence slides, which is partly due to concerns surrounding the new government's policies. Mexico's GDP contracted over the past six months and the finance minister recently quit. Mexico is Latin America's second-largest economy.

A global economic slowdown could hit the Pacific Alliance countries harder than Canada, which is also worth considering.

Opportunities

Despite the geopolitical and commodity-based risks, the Pacific Alliance countries offer strong long-term potential. The four markets are home to more than 230 million consumers that are seeing their overall standard of living improve.

A rising middle-class bodes well for Bank of Nova Scotia in both its personal and commercial banking divisions.

The international operations are performing well and already account for more than 30% of total profits.

Should you buy?

Bank of Nova Scotia trades at just 10.4 times trailing earnings, which seems quite cheap given the solid performance by the international division and the strong overall profitability of the company. An emerging-market discount is expected on the stock, but it might be overdone.

The board continues to raise the dividend and investors who buy today can pick up a safe and generous 5% [yield](#).

Investors with a buy-and-hold strategy might want to start nibbling on the stock at the current price and look to add to the position on further weakness. As a long-term pick, Bank of Nova Scotia appears attractive right now.

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