



Bank of Nova Scotia (TSX:BNS) Is Too Cheap to Ignore, Making Now the Time to Buy

Description

Canadian banks are attracting considerable adverse attention, as fears of a housing crash, weaker economy, and heavily indebted households all weigh on the outlook for the financial sector. As a result, many of the major banks have failed to perform over the last year, weighed down by lacklustre growth and heavy attention from short-sellers.

While the likes of **Royal Bank of Canada** and **Toronto-Dominion Bank** have made modest gains over that period, Canada's most international lender **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) has lost almost 8%. This is despite Scotiabank possessing the best long-term growth prospects of Canada's Big Five banks. That has created an opportunity for investors seeking solid long-term growth prospects and a juicy dividend yielding almost 5%.

Solid long-term growth ahead

Much of that considerable potential is triggered by Scotiabank's ongoing expansion into [Latin America](#), where it has established a significant operational footprint and become a leading bank in Mexico, Colombia, Peru, Chile, and the Dominican Republic. The region's economy has returned to growth, and those nations are poised to experience GDP growth for 2019 and 2020, which is well in excess of the 1.5% and 1.9%, respectively, forecast by the IMF for Canada. It is widely accepted among analysts that there is a direct correlation between GDP growth and stronger demand for credit and deposit taking by banks.

Those [stronger economies](#) combined with young, rapidly growing populations, an expanding middle class, and a lack of banking as well as other financial services in those countries bode well for an uptick in lending and deposit taking. By the end of the second quarter 2019, 24% of Scotiabank's earnings came from Mexico, Colombia, Chile, and Peru. This will continue to expand at a solid clip, as those economies firm and demand for financial services rises at a solid rate.

Scotiabank recently inked a strategic alliance with the insurance unit of BNP Paribas to deliver more

insurance solutions for its customers in those four nations. This will help it to capture a greater share of the burgeoning middle class in Latin America, which is an important driver of consumption, credit demand, and ultimately economic growth.

The volume of middle-class households in Latin America expanded by 3% between 2008 and 2018 to represent almost 26% of total households in the region. That growth has been quite strong in Colombia and Chile, where Scotiabank is the fifth- and third-largest bank, respectively.

The mortgage lender is also focused on expanding its Canadian business, notably its wealth management operations with the late-2018 \$2.6 billion acquisition of MD Financial Management. This is a leading wealth management business catering to doctors, and the deal, on completion, added over \$49 billion in assets under management to Scotiabank's operations. It also gives the lender the ability to access a large high net worth client base for the cross-selling products as well as a recurring source of non-interest income from wealth management products, reducing its reliance upon credit to drive earnings growth.

In late June 2019, Scotiabank announced it would sell its business in Puerto Rico and the U.S. Virgin Islands for US\$560 million. While this will see the bank record an after-tax third quarter 2019 \$400 million loss, it reduces its exposure to poorly performing international markets, reduces the value of impaired loans on its books, and bolsters its regulatory capital.

Foolish takeaway

Scotiabank is poised to expand earnings at a solid clip over the coming year, and with a price of 10 times forward earnings and 1.4 times its book value, it appears attractively valued, making now the time to buy. While investors wait for its stock to appreciate as earnings grow, they will be rewarded by Scotiabank's sustainable dividend yielding just under 5%.

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