Scotiabank (TSX:BNS): A Long-Term Play Immune to the U.S.-China Trade War

Description

The stock market has had unprecedented bull run for the last decade, which is fantastic for long-term investors but also frustrating for people like me, who love a good stock at bargain prices.

As trade tensions continue to rise, the broad market sell-off assumes an imminent global slowdown because every economy is connected to the U.S. or China in some form or the other. Or is it?

The stock & the play

Enter **Scotiabank** (TSX:BNS)(NYSE:BNS) and its unique position as a "Canada/Pacific Alliance" play. The Pacific Alliance refers to an economic trade bloc between Mexico, Colombia, Peru, and Chile. While some people may struggle to point to some of these countries on a map, this trade bloc collectively makes up an impressive US$2.7 trillion economy and ~230 million potential customers of goods and services.

What may be less apparent to investors is that some of these lesser-known countries are key to global growth in the next decade. For example, Chile is home to the largest copper reserves in the world, and copper is an essential input to electric vehicles. This means the Chilean economy is poised to grow in tandem with the electric car revolution, which is gaining serious global steam.

So, what does all of this have to do with Scotiabank? A lot. Scotiabank has invested heavily in all four countries of this trade bloc. It is the only North American bank in a position to take advantage of this growing alliance, with approximately 25% of 2019 half-year earnings coming from the Pacific Alliance countries and year-over-year revenue and loan growth up 22% and 29%, respectively. These high-octane growth rates allow the bank to essentially take earnings from its mature and stable businesses in Canada and reinvest them at a significantly greater return down south.

Scotiabank has also correctly figured out that the only way to be relevant in Latin America is to be inthe market at scale. In addition to solid organic growth, the bank hasn't been shy to snap up appealing assets, as we see in its Q2 2019 earnings call transcript. It has seen a significant increase in the combined market share in Chile following the BBVA Chile acquisition in 2018.

Still not convinced? Scotiabank forecasts an approximate 2% growth in the Canadian and U.S. economies in 2020 but almost 4% for Peru and Colombia. That means that each dollar that Scotiabank invests in these countries is going into a system that is growing at double the pace of North America, and that is called smart strategic investing.

What's more, Canada is in the process of negotiating a potential free trade agreement with this trade bloc that will reduce trade barriers and create opportunities for Scotiabank to take advantage of that economic goodness.

And finally, the best part of Scotiabank's strategy is its relative immunity from any U.S.-China trade disputes, since the Pacific Alliance is more focused on regional growth, and that is the big Scotiabank bet.

Its stock price has been clobbered in 2019, even though earnings and dividends per share continue to edge up nicely, with earnings growing at an annual rate of 9% since 2008 and dividend increases following suit with a 6% annual increase over the same period.

The final verdict

The stock price of around $68 as of August 20, 2019, is close to where it was towards the end of 2014, while the bank has substantially improved its earnings, dividends, and geographic profile and sports a growing 5.1% dividend yield. Scotiabank is gearing up to announce Q3 earnings, and investors are expecting a dividend increase and a slight uptick in earnings. These are all positive signals that true Fools should look at very closely when assessing the long-term potential of the bank.

If you are able to tune out short-term market gyrations, Scotiabank presents an amazing opportunity to place a strategic bet on the long-term economic prospects of some of the best economies in Latin America.

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Author
rahimbhayani