Why Bank of Nova Scotia (TSX:BNS) Stock Rose 2% in August

Description

Canada's banks stocks are attracting considerable negative attention from investors as a range of headwinds weigh on their outlook. This sees all the big five banks now making up the top five most shorted stocks on the **TSX.**

While most of the big five lost ground during August 2019, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) bucked the trend, gaining almost 2%.

Solid results

The key reason for this was the bank's robust third-quarter 2019 results, which indicate that it has returned to growth and has the potential to deliver considerable value for investors.

The primary positive developments were a 7% year over year increase in revenue to $7.7 billion and diluted earnings per share shot up by 7% to $1.88. Those solid numbers saw management hike the dividend yet again, increasing it by 3%, or $0.03 to $0.90 per share, an annual payment of $3.60. This gives Scotiabank a tasty 5% yield which is the second highest among the big five banks.

The main driver of this notable performance was Scotiabank's international banking business, which is focused on the Pacific Alliance nations of Mexico, Colombia, Chile and Peru. Scotiabank is ranked as a top 10 bank in all four Latin American countries.

That segment has been experiencing solid loan, deposit and earnings growth since around the start of 2017. This can be attributed to a range of acquisitions made by Scotiabank in the region, including the majority stake of Spanish banking giant **BBVA's** Chilean business, seeing Scotiabank become one of the largest private banks in the country.

Scotiabank's international division reported double-digit earnings growth with adjusted net income rising by 14% year over year on the back of a 28% increase in loans and revenue rising by 20%.

Strong growth from international banking is anticipated over the coming year, particularly in the Pacific

Alliance nations of Mexico, Colombia, Chile and Peru. Mexico and Colombia should benefit from the trade war between the U.S. and China, as the U.S. is their key export partner and reduced demand for imports from China and higher tariffs will make their products more attractive.

Meanwhile, Peru and Chile are benefiting from firmer commodity prices, with copper being a key export.

Scotiabank's divestment of its operations in Puerto Rico and U.S. Virgin Islands will help to reduce risk in its loan portfolio and strengthen its financial position.

The bank's third-quarter 2019 results indicate that its financial position and credit quality is improving. The value of gross impaired loans (GILs) fell by 3% quarter over quarter and 5% compared to a year earlier. Scotiabank's overall GIL ratio fell by 0.09% to 0.86%. which is quite low, thereby highlighting the quality of its loan portfolio.

It reported a common equity tier one capital ratio of 11.2% which despite being marginally lower than a year earlier emphasizes Scotiabank's financial strength and that it is more than adequately capitalized.

Foolish takeaway

While there are headwinds ahead for Scotiabank, its performance over the remainder of 2019 should remain strong with the completed divestments and focus on building its core international business in Latin America boosting earnings further.

While investors wait for that to propel Scotiabank's stock higher, they will be rewarded for their patience by the sustainable regular dividend yielding a juicy 5%.

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