



Earnings Season Is Back and This Bank Is Loving it!

Description

Earnings season is back.

Over the next week, the big banks are set to release their results for the fourth quarter. **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) was the first of the big banks to announce results this week, which were positive overall.

Here's a look at those results and what they mean for your portfolio.

Cautiously positive results

Canada's third-largest lender kicked off the season in style, surpassing analyst expectations on earnings. The bank posted earnings of \$2.23 billion, or \$1.82 per share, exceeding the \$2.17 billion, or \$1.77 per share, reported in the same period last year. Analysts were largely expecting the bank to report earnings of \$1.81 per share.

Bank of Nova Scotia's international segment, which includes the bank's lucrative Pacific Alliance investments, saw strong gains in the quarter, as earnings came in at \$823 million. Earnings from Chile alone, where Bank of Nova Scotia has a large presence, spiked 25% in the quarter.

That's not to say that profits from the domestic segment are to be ignored; the Canadian segment posted earnings of \$1.14 billion in the most recent quarter, while revenues surged 4% across the segment to \$3.57 billion. Strong loan growth, residential mortgages, and personal loans all played a factor in pushing that number higher.

Over the course of the full fiscal year, Bank of Nova Scotia ended with a solid 2.9% gain in profits over the prior year, coming in at \$9.4 billion.

Why this matters

Despite posting solid gains in the most recent quarter, there are a few tell-tale signs about where the economy is heading. Margins are shrinking, credit provisions are skyrocketing, and the prospect of a rate cut is gaining traction.

To put it another way, a slowdown could be coming within the next year, and Bank of Nova Scotia is well prepared. Bank of Nova Scotia saw a 28% boost to credit loss provisions in the quarter to \$753 million.

Bank of Nova Scotia is well diversified against a slowdown in the domestic market thanks to its continued efforts to expand into the new markets, particularly the Pacific Alliance nations of Columbia, Chile, Mexico, and Peru. Revenue from the trade bloc now accounts for a quarter of all revenue, and earnings from the segment are far exceeding the domestic market.

Bank of Nova Scotia CEO Brian Porter best phrased it as being “downturn ready.”

What should you do?

Bank of Nova Scotia is an appealing investment option, and not just because of the positive results announced this week. The bank offers a generous quarterly dividend with an appetizing yield of 4.81%, which is not only at a [sustainable payout](#) ratio of under 50% but is also on the upper end of the spectrum when compared to the other big banks.

Furthermore, Bank of Nova Scotia's strategy to invest into the Pacific Alliance has worked well to diversify the bank against a potential slowdown in either the domestic or U.S. market. This is a unique advantage over its peers that is often overlooked.

In other words, Bank of Nova Scotia is a well-diversified, [solid investment option](#) with a great dividend. In my opinion, if it isn't already part of your portfolio, it should be.

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