



Should Shareholders of This 1 Top Canadian Banking Stock Be Worried?

Description

With the earnings season back in full swing, Canada's Big Five stirred up a lot of excitement with the release of the fourth-quarter fiscal 2019 results. The **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is leading the charge with the release of its earnings report in the past week.

The bank posted remarkable earnings of \$2.23 billion in Q4 2019 – far more than the expectations of analysts and the \$2.17 billion reported in the same period last year.

Decent results

Scotiabank's Canadian market segment posted earnings of \$1.14 billion in the latest quarter. At the same time, the revenue for domestic operations increased by 4% to reach \$3.57 billion. Residential mortgages, personal loans, and overall loan growth played an essential role in the surge in domestic operations.

As far as international operations are concerned, BNS has a diversified portfolio that can help it against any slowdown in domestic markets. The Pacific Alliance nations include [Columbia](#), Chile, Mexico, and Peru.

The sector saw substantial gains in the past quarter, with earnings amounting to \$823 billion. The bank's profits in Chile, alone, climbed up by 25% in Q4 2019.

Cause for worry

The Bank of Nova Scotia's Latin American operations accounts for a fifth of its net income. You can consider it an integral part of the company's overall performance.

A significant presence in the Pacific Alliance nations shields BNS from domestic market downturns. However, it doesn't account for any issues in operations in Latin America.

Geopolitical situations have a significant role in affecting any company's value, mainly if it operates in a troublesome region. The unrest in Latin America continues to increase with civil unrest, spreading across Ecuador and then Chile. There are concerns that the disorder can extend as far as the third-largest economy in the region, Columbia.

BNS has a significant presence in both Columbia and Chile, and there's reason to believe that continued unrest in both countries can affect Scotiabank's performance.

The world's largest copper producers

The country is the world's largest copper producer. Chile's finance minister has warned that the civil unrest in the country can adversely impact the country's GDP growth to fall to as low as 2% every year from 2.6%. It could become a worry for the Bank of Nova Scotia.

A key factor for the success of a bank in any market segment is the performance of the regional economy. Chile accounted for 5% of BNS's overall net adjusted income in Q4, 2019. If the GDP growth falls, it can cause a decline in Scotiabank's performance moving forward.

Foolish takeaway

Scotiabank's [performance in the recent quarter](#) exhibit positive signs for the bank and shareholders. The increasing unrest in its primary market segments in Latin America could create problems for the bank, however.

A presence in Chile, Columbia, Peru, and Mexico was built over the past two decades to protect the bank from a recession in domestic operations.

Between the civil unrest potentially having a profound impact on economic growth and a downturn in local operations, BNS shareholders, might have something to worry about in the coming few years.

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