Profit From Buying Canada’s Most International Bank on the Dip

Description

Markets continue to gyrate wildly on coronavirus fears and the growing likelihood of a global economic slump. Even after the latest rebound, the **Dow Jones Industrial** is down by 12% since the start of 2020, while the **S&P/TSX Composite Index** has lost a more modest 5%.

This has created an opportunity to acquire quality stocks at appealing valuations. Even after accounting for the economic and geopolitical risks, the big banks are attractively valued.

Canada’s third-largest lender, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has lost 5% for the year to date, creating an opportunity to buy one of the Big Five banks at an attractive price.

Solid long-term outlook

The bank, which trades as Scotiabank, has over the last decade via a series of acquisitions built a larger operational footprint in Latin America. As a top 10-ranked bank in the Dominican Republic, Mexico, Colombia, Peru and Chile, the bank has reduced its reliance upon the Canadian economy and housing market while giving it exposure to some of the fastest-growing economies in Latin America.

For its first quarter 2020, Scotiabank reported some solid results, demonstrating a notable improvement in its performance compared to 2019. Scotiabank’s earnings per share increased by 5% year over year, while its return on equity (ROE), a key measure of profitability, expanded by 0.2% to a healthy 13.9%.

That quality performance can be attributed to Scotiabank’s global wealth management and capital markets divisions, which announced an 11% and 35% increase in net income, respectively.

Canadian banking adjusted net income popped by a healthy 5% year over year on the back of higher net interest and fee income, offsetting growing margin pressures. Only international banking saw its net income decline, falling by 4% year over year because of margin compression and lower net interest income.

There are signs that international banking's performance will worsen because of rising geopolitical risk in Latin America and the economic fallout from the coronavirus including slower growth in China. This is because many Latin American economies, notably Colombia, Chile and Peru, where Scotiabank is ranked as a top five bank, are heavily dependent on the extraction and export of commodities to drive growth. Colombia and Chile also continue to experience considerable civil unrest, which has the potential to impact their respective economies.

While that risk coupled with the rising likelihood of a global economic slump will weigh on Scotiabank's short-term performance, it shouldn't deter you from adding the bank to your portfolio.

The bank has consistently delivered considerable value for investors over the last decade, producing a return of 188% if dividends were reinvested and equating to a compound annual growth rate (CAGR) of just over 8%.

In order to offset the fallout from the coronavirus outbreak, central banks worldwide will likely implement measures to stimulate the economy. While the Bank of Canada is expected to hold the headline interest rate steady at 1.75% on Wednesday, there is the potential for a rate cut if the economy is severely impacted by the coronavirus.

Any uplift in the economy bodes well for Scotiabank's earnings growth, as despite compressing its margins, it will spark a greater demand for credit among businesses and consumers, leading to higher net interest income.

Similar to its peers, Scotiabank is also focused on driving greater efficiencies from its operations through digitizing its service platform and controlling costs, boosting boost profitability and earnings.

Looking ahead

While the short-term outlook for Scotiabank appears poor, it shouldn't deter investors from adding the bank to their portfolio. The bank is very attractively valued when considered that it's trading at an attractive valuation with a price of 10 times forecast earnings and 1.4 times its book value.

Patient investors will be rewarded by Scotiabank's sustainable dividend yielding a very juicy 5% while they wait for its stock to rebound.

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