Bank of Nova Scotia (BNS)

Overview & Current Events

Bank of Nova Scotia was founded in 1832. Today, the bank employs over 89,000 people to service 23 million clients around the world.

Bank of Nova Scotia recorded adjusted earnings-per-share growth of 3.3% in its most recent quarter (5/31/16). The company's growth is a result of increased banking assets and acquisitions. Growth was partially offset by weakness in the company's wealth management and underwriting businesses.

Competitive Advantage & Recession Performance

In the banking and insurance industries, taking less risk than your competitors can be a competitive advantage. Risk-seeking behavior damaged much of the United States banking industry during the Great Recession. Bank of Nova Scotia takes less risk than many of its peers in the United States. This results in favorable long-term results as the company is able to continue to perform while overleveraged financial institutions suffer.

The Great Recession of 2007 to 2009 caused earnings-per-shear to drop from $4.03 in 2007 to a low of $3.06 in 2008. Bank of Nova Scotia *did not reduce its dividend* during the Great Recession. Even in 2009, it maintained a safe payout ratio of 61% while many of its United States counterparts were slashing dividends to remain in business.

Growth Prospects, Valuation, & Catalyst

Bank of Nova Scotia grew its earnings-per-share at 6.2% a year (in Canadian Dollars) over the last decade. Dividends grew at a similar 6.1% a year pace over the same time period. The company's future growth will come from a mix of continued expansion into the United States and other markets, both organically and through acquisitions. I expect the company to continue growing its earnings-per-share at around 7% a year going forward. Together, this growth combined with the company's 4%+ dividend yield gives investors expected total returns of ~11% a year going forward (before potential valuation gains).

Bank of Nova Scotia's 10 year historical average price-to-earnings ratio is just 12.3. The company is currently trading for a price-to-earnings ratio of 11.5. I believe a price-to-earnings ratio of at least 13.5 is fair value for the company given today's low interest rate environment and higher price-to-earnings ratios overall. This implies a fair value of ~$77/share for the company. It is currently trading for ~$65/share.

Key Statistics, Ratios, & Metrics

Maximum Drawdown[1]:	64%	**10 Year EPS Growth Rate:**	6.2% per year
Dividend Yield:	4.3%	**10 Year Dividend Growth Rate:**	6.1% per year
Most Recent Dividend Increase:	2.9%	**10 Year Historical Avg. P/E Ratio:**	12.3
Estimated Fair Value[2]:	$77/share	**10 Year Annualized Total Return:**	6.9%[3]

Dividend History: 72 years without a reduction[4]

[1] Since year 2000. Maximum drawdown occurred in February of 2009 (measured in USD)

[2] Currently trading for $65.25 per share

[3] Measured in USD

[4] Dividend history measured in Canadian Dollars, which excludes effects of currency changes for United States investors