



Bank of Nova Scotia (BNS)

Updated March 3rd, 2020 by Kay Ng

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	13.4%	Market Cap:	\$63.2B
Fair Value Price:	\$64	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/06/20
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	04/28/20
Dividend Yield:	5.3%	5 Year Price Target	\$81	Years Of Dividend Growth¹:	9
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase¹:	5.3%

Overview & Current Events

Bank of Nova Scotia (often called Scotiabank) is the third-largest financial institution in Canada behind the Royal Bank of Canada (RY) and the Toronto-Dominion Bank (TD). Scotiabank reports in 5 segments – Canadian Banking, International Banking, Global Wealth Management, Global Banking & Markets, and Other – and is cross-listed on the Toronto Stock Exchange and the New York Stock Exchange using ‘BNS’ as the ticker. We’ll be using U.S. dollars throughout this report unless otherwise stated.

Scotiabank reported fiscal Q1 2020 results on 02/25/20. Revenue increased 7% to C\$8.1 billion over fiscal Q1 2019 thanks to a 2.8% gain in net interest income and 12.6% boost in non-interest income. This led to net income growth of 3.5% to C\$2.3 billion year over year. On a diluted earnings-per-share basis, it was an increase of 7.6% to C\$1.84. On an adjusted basis, earnings-per-share climbed 4.6%.

There were no surprises for the bank’s Canadian Banking segment, which continues to show stable growth (specifically, adjusted net income rose 5% to C\$908 million) supported by loan and deposit growth, respectively, of 6% and 5%. On a constant dollar basis, International Banking segment saw adjusted net income falling 17% due to divested operations and tax benefits in Mexico in fiscal 2019. Global Wealth Management saw adjusted net income growth of 11% to C\$318 million due primarily to higher fee income, while adjusted net income climbed 35% to C\$451 million for the Global Banking & Markets segment predominantly due to strong growth in trading-related revenue. The bank’s adjusted return on equity was 13.9%, an improvement from 13.7% year over year. The bank did timely repurchases of 3.6 million shares for ~C\$74.44 per share in fiscal Q1 2020, as the stock was discounted against its historic valuation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.96	\$4.64	\$4.85	\$4.84	\$4.75	\$4.28	\$4.50	\$5.10	\$5.35	\$5.39	\$5.65	\$7.21
DPS	\$1.89	\$2.08	\$2.18	\$2.34	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.76	\$3.52
Shares¹	1,043	1,089	1,184	1,209	1,217	1,203	1,208	1,199	1,227	1,216	1,255	1,319

Scotiabank’s three-year EPS growth rate was just north of 7% in Canadian dollars and 6.2% when converted to USD. Given the recent underperformance, we came up with an initial EPS estimate of C\$7.50 for fiscal 2020, representing 5% growth in the Canadian currency, or US\$5.65. Longer term, we’re giving it a more conservative growth rate of 5% versus management’s medium-term target of 7%. Dividend growth should follow earnings growth. Despite slowing economic growth, we believe the bank is capable of growing EPS by 5% annually on average through 2025. The bank’s consistent organic and acquired revenue growth will likely drive the top and bottom lines higher in the long run. Scotiabank has a noticeably differentiated growth strategy when compared to its peers in the Canadian banking industry. While other banks have focused on expanding into the United States, Scotiabank’s future growth should come primarily from its rapidly-expanding International Banking segment, which provides banking services in emerging economies like Mexico, Peru, Chile, and Colombia. These markets are appealing because net interest margins there are significantly higher and their longer-term economic growth is also higher. In addition, Scotiabank has the size and capital structure to consolidate these fragmented banking markets. To put its moves into context, Scotiabank now owns the 3rd largest

1. Years of dividend growth in C\$; TTM dividend per share over prior TTM dividend per share in C\$; Shares in millions.

Disclosure: Kay Ng owns shares in Scotiabank.



Bank of Nova Scotia (BNS)

Updated March 3rd, 2020 by Kay Ng

private bank in Chile, the second-largest credit card issuer in Peru, and the fourth-largest full-service financial institution in the Dominican Republic. Based on these activities, we believe that Scotiabank's acquisition-based growth strategy is likely to be the lynchpin of its growth moving forward. Importantly, its core Canadian Banking business remains strong, providing the capital necessary to continue to go out and purchase international growth, while its Global Banking & Markets business may be volatile.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.6	11.0	11.0	12.9	11.7	9.9	13.0	12.5	10.0	11.4	9.2	11.3
Avg. Yld.	3.5%	4.0%	4.0%	3.9%	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	5.3%	4.3%

From 2010-2019, Scotiabank traded at an average price-to-earnings ratio of about 11.8. However, we think the more conservative median P/E of 11.3 over the period makes more sense for the anticipated slower growth. Using our 2020 earnings-per-share estimate of \$5.65, the bank currently trades at a price-to-earnings ratio of 9.2, which is a discount from the fair P/E of 11.3. We believe that valuation expansion to about 11.3 can boost the bank's total returns by 4.2% per year over the next five years. The yield, which is relatively high today compared to historic standards thanks to the low valuation, should moderate to 4.3% or so in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

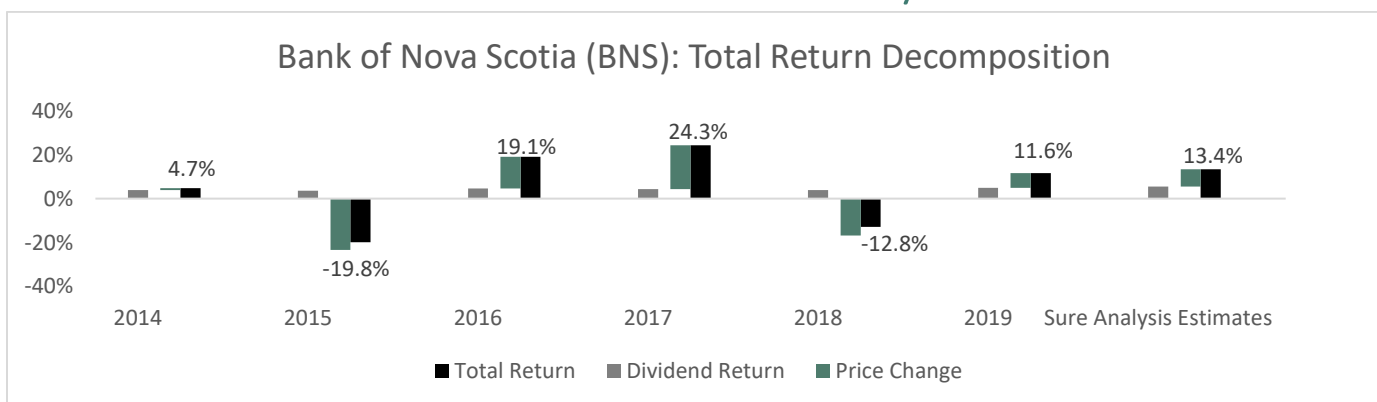
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	48%	45%	45%	48%	49%	51%	48%	46%	48%	49%	49%	49%

Scotiabank's recent-year payout ratios have been about 50%, which aligns with the other big Canadian peers. The ratio also leaves room for continued dividend growth in the event that earnings growth stalls temporarily. The bank's competitive advantage is in its international growth strategy, as it is willing to acquire growth outside of its primary markets. This strategy has worked quite well in recent years and we expect this will continue to be an advantage for Scotiabank for years to come.

Final Thoughts & Recommendation

In total, we see total annual returns of about 13.4% annually in the coming years. These returns should accrue from the current 5.3% yield, a 4.2% tailwind from a rising valuation, and 5% earnings-per-share growth. As a result, the bank continues to earn a buy recommendation from Sure Dividend.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

1. Years of dividend growth in C\$; TTM dividend per share over prior TTM dividend per share in C\$; Shares in millions.
Disclosure: Kay Ng owns shares in Scotiabank.



Bank of Nova Scotia (BNS)

Updated March 3rd, 2020 by Kay Ng

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	14923	17104	19107	20225	21269	19052	19560	20452	21931	22861
SG&A Exp.	5150	6211	6593	7017	6915	6210	6097	6417	6593	7168
D&A Exp.	321	419	444	506	483	471	516	582	659	792
Net Profit	4080	5251	6165	6257	6489	5652	5367	6121	6644	6313
Net Margin	27.3%	30.7%	32.3%	30.9%	30.5%	29.7%	27.4%	29.9%	30.3%	27.6%
Free Cash Flow	-3055	11109	5830	8607	4283	13009	3158	12680	13520	-9188
Income Tax	1679	1442	1561	1704	1837	1493	1531	1554	1851	1860

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (B)	512	598	668	709	719	651	668	713	761	825
Cash	44759	54792	47346	50884	50657	56161	34545	46506	47461	35482
Accounts Rec.			3452	2591	2556	2830	2926	3001	3566	3864
Goodwill & Int. Ass.	3539	7684	8694	10212	9719	8698	9050	9436	13505	13264
Total Liabilities (B)	485	566	627	666	675	610	625	665	709	772
Accounts Payable			8853	7679	6677	5575	5954	6887	7162	6989
Long-Term Debt	26702	30725	10145	5572	4350	4696	5690	4626	4343	5508
Equity	23005	26512	35259	38317	40151	37289	39251	43225	46528	48331
D/E Ratio	0.99	0.99	0.26	0.13	0.10	0.12	0.14	0.10	0.09	0.11

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.8%	0.9%	1.0%	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.8%
Return on Equity	19.2%	21.2%	20.0%	17.0%	16.5%	14.6%	14.0%	14.8%	14.8%	13.3%
ROIC	8.5%	9.0%	10.8%	12.5%	13.4%	12.1%	11.4%	12.1%	12.2%	11.0%
Shares Out.	1,043	1,089	1,184	1,209	1,217	1,203	1,208	1,199	1,224	1,247
Revenue/Share	14.43	15.44	16.47	16.73	17.41	15.46	15.95	16.72	17.84	18.27
FCF/Share	-2.95	10.03	5.03	7.12	3.50	10.56	2.58	10.37	11.00	-7.34

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.