



Bank of Nova Scotia (BNS)

Updated August 28th, 2021 by Kay Ng

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	10.1%	Market Cap:	\$77B
Fair Value Price:	\$67	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/04/21
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	10/27/21
Dividend Yield:	4.5%	5 Year Price Target	\$86	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	N/A

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 Q3 2021 results on 08/24/21. For the quarter, adjusted net income was C\$2,560 million, up 96% year over year. Adjusted diluted earnings-per-share (“EPS”) climbed 93% to C\$2.01. The higher earnings primarily reflect normalized provisions for credit losses (PCL), which were especially high in fiscal Q3 2020, as the bank set aside more capital in preparation for higher bad loans during the pandemic. The situation was similar across the board at the other big banks. The bank’s provision for credit losses ratio was 0.24% (against year over year’s 1.36%), as economic conditions have improved. We believe BNS continues to have prudent lending practices. For the quarter, BNS’s provision for credit losses on impaired loans ratio was 0.53%, which is close to the normalized levels of about 0.49% in 2019.

The bank’s capital position remains strong with its Common Equity Tier 1 ratio at 12.3%. Adjusted return on equity (“ROE”) was 14.9% in fiscal Q2 compared to fiscal Q2 2020’s 8.2%.

The year-to-date results of the fiscal year show a more normalized picture. Adjusted net income rose 48% to C\$7,453 million. The adjusted EPS climbed 48% as well to C\$5.78. Despite coronavirus variants that are spreading faster, the world is hopeful about a 2021 macro-environment turnaround with the global rollouts of multiple vaccines. We maintain our 2021 EPS estimate of \$5.93.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.64	\$4.85	\$4.84	\$4.75	\$4.28	\$4.50	\$5.10	\$5.35	\$5.39	\$4.14	\$5.93	\$7.57
DPS	\$2.08	\$2.18	\$2.34	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.81	\$3.59
Shares¹	1,089	1,184	1,209	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,223	1,286

Scotiabank’s three-year EPS growth rate was just north of 5.7% in Canadian dollars and 6.2% when converted to USD from fiscal 2016-2019. The economic normalization process is expected to be faster than initially anticipated. This could continue to be a bumpy journey, depending on the trajectory of the pandemic and how quickly it’s contained/controlled. For now, we give BNS an EPS growth rate of 5% through 2026.

BNS has maintained the same quarterly dividend of CAD\$0.90 per share for 9 quarters straight since the quarterly dividend paid on October 2019. We expect regulatory bodies to allow the bank to increase its dividend soon. Keep in mind that the fluctuations in the forex between U.S. dollars and Canadian dollars will affect the effective yield of U.S. shareholders.

¹ Shares in millions

Disclosure: Kay Ng owns shares of RY and TD.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.0	11.0	12.9	11.7	9.9	13.0	12.5	10.0	11.4	9.6	10.6	11.3
Avg. Yld.	4.0%	4.0%	3.9%	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.5%	4.2%

From 2011-2020, Scotiabank traded at an average price-to-earnings ratio of about 11.3. Using our 2021 EPS estimate of \$5.93, the bank currently trades at a price-to-earnings ratio of 10.6, which makes the stock fairly valued. BNS's yield is above average to the market, making it appealing to income investors. As a Canadian stock, BNS's dividends may be subject to a 15% dividend withholding tax for U.S. investors. This tax can potentially be avoided by investing in BNS through a retirement account.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45%	45%	48%	49%	51%	48%	46%	48%	49%	64%	47%	47%

During the Great Recession, Bank of Nova Scotia increased its dividend and only froze its dividend in fiscal 2010 before resuming dividend growth afterwards. We are optimistic that the bank can maintain its dividend in these uncertain economic times and increase its dividend again in better times ahead (potentially by next fiscal year).

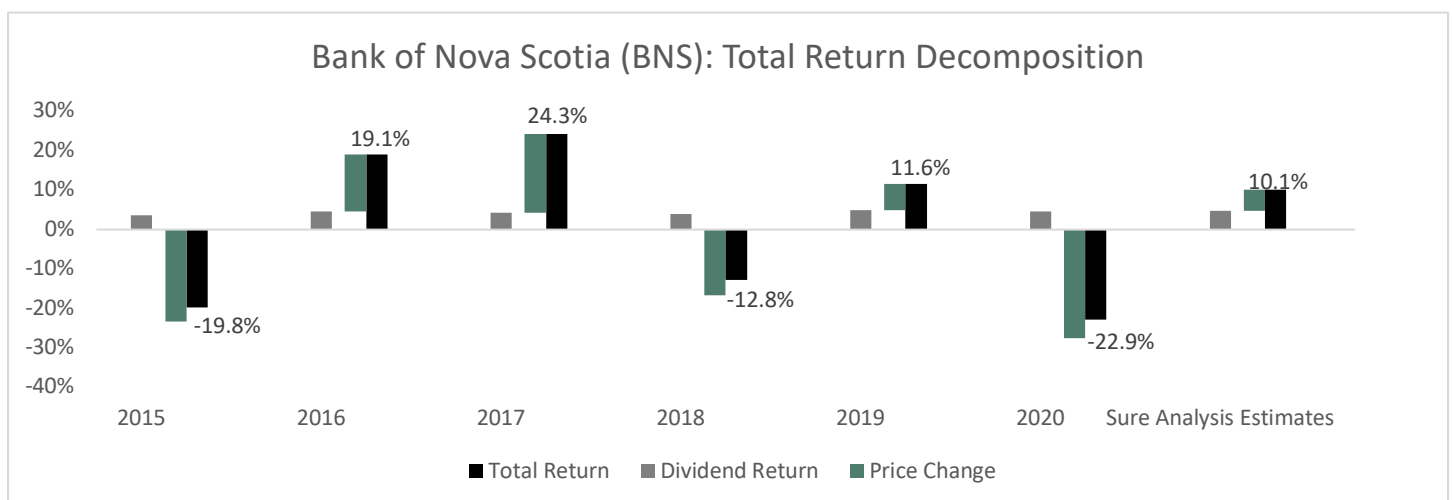
BNS normally has a payout ratio of about 50% that aligns with other big Canadian banks. Its payout ratio was higher than normal in 2020 due to higher provision for credit losses from pandemic impacts. We expect BNS's payout ratio to normalize in the 50% range.

The bank's competitive advantage is in its international growth strategy, as it is willing to acquire growth outside of its primary markets. When the global economic environment improves, its international strategy should be an advantage for growth.

Final Thoughts & Recommendation

We see total annual returns of about 10.1% annually in the coming years. These returns should accrue from a yield of 4.5%, valuation expansion of 1.3%, and 5% earnings-per-share growth. As a result, the high-yield stock continues to earn a buy recommendation from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	17104	19107	20225	21269	19052	19560	20452	21931	22861	23129
SG&A Exp.	6211	6593	7017	6915	6210	6097	6417	6593	7168	7057
D&A Exp.	419	444	506	483	471	516	582	659	792	1150
Net Profit	5251	6165	6257	6489	5652	5367	6121	6644	6313	5042
Net Margin	30.7%	32.3%	30.9%	30.5%	29.7%	27.4%	29.9%	30.3%	27.6%	21.8%
Free Cash Flow	11109	5830	8607	4283	13009	3158	12680	13520	-9188	41576
Income Tax	1442	1561	1704	1837	1493	1531	1554	1851	1860	1148

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	597930	668178	709436	719419	650664	668077	713437	761051	824907	853050
Cash & Equivalents	45489	47346	50884	50657	56161	34545	46506	47461	35482	57392
Accounts Receivable	3624	3452	2591	2556	2830	2926	3001	3566	3864	3631
Goodwill & Int. Ass.	7684	8694	10212	9719	8698	9050	9436	13505	13264	12772
Total Liabilities	565500	626790	666137	675476	610037	624977	665402	709466	771598	800129
Accounts Payable	8260	8853	7679	6677	5575	5954	6887	7162	6989	6237
Long-Term Debt	6964	10145	5738	4765	5825	5690	4626	4343	5508	5558
Shareholder's Equity	26512	35259	38317	40151	37289	39251	43225	46528	48331	47153
D/E Ratio	0.23	0.26	0.14	0.11	0.15	0.14	0.10	0.09	0.11	0.11

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.9%	1.0%	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.8%	0.6%
Return on Equity	22.0%	20.0%	17.0%	16.5%	14.6%	14.0%	14.8%	14.8%	13.3%	10.6%
ROIC	14.5%	13.6%	12.4%	13.3%	11.9%	11.4%	12.1%	12.2%	11.0%	8.6%
Shares Out.	1089	1184	1209	1217	1203	1208	1199	1227	1216	1211
Revenue/Share	15.44	16.47	16.73	17.41	15.46	15.95	16.72	17.84	18.27	18.61
FCF/Share	10.03	5.03	7.12	3.50	10.56	2.58	10.37	11.00	-7.34	33.45

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

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