



Bank of Nova Scotia (BNS)

Updated March 6th, 2022 by Kay Ng

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	9.3%	Market Cap:	\$88.6B
Fair Value Price:	\$75	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/04/22
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	04/27/22
Dividend Yield:	4.3%	5 Year Price Target	\$96	Years Of Dividend Growth¹:	10
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase¹:	5.6%

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 2022 results on 03/01/22. For the quarter, adjusted net income was C\$2,758 million, up 14% year over year. Adjusted diluted earnings-per-share (“EPS”) climbed 14% to C\$2.15. The adjusted return on equity (ROE) was 15.9%, up from 14.4% a year ago.

The higher earnings primarily reflect normalized provisions for credit losses (PCL), which were at higher levels in fiscal Q1 2021. The credit quality and macroeconomic outlook improved as the economy normalizes from COVID-19. The situation was similar across the board at the other big banks.

The bank’s provision for credit losses ratio was 0.13% (against fiscal Q1 2021’s 0.49%), as economic conditions have improved. We believe BNS continues to have prudent lending practices. For reference, BNS’s provision for credit losses on impaired loans ratio was 0.49% in fiscal 2019. The bank’s capital position remains strong with its Common Equity Tier 1 ratio at 12.0%.

On February 28, 2022, Bank of Nova Scotia announced it increased its stake in Scotiabank Chile by 16.8% to 99.8% for a transaction valued at CAD\$1.3 billion. We updated our 2022 EPS estimate to \$6.58.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.85	\$4.84	\$4.75	\$4.28	\$4.50	\$5.10	\$5.35	\$5.39	\$4.14	\$6.15	\$6.58	\$8.40
DPS	\$2.18	\$2.34	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.85	\$3.16	\$4.03
Shares¹	1,184	1,209	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,224	1,236	1,299

Scotiabank’s five-year EPS growth rate was just north of 5.4% in Canadian dollars and 6.4% when converted to USD from fiscal 2016-2021. 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 government policy changes to balance economic growth and containing the coronavirus. For now, we give BNS an EPS growth rate of 5% through 2027. After the regulator, Office of the Superintendent of Financial Institutions (“OSFI”), loosened its restrictions, BNS stock raised its annualized payout from C\$3.60 to C\$4.00 in November 2021. We set our 2022 dividend estimate based on the forex rate at writing. Keep in mind that the fluctuations in the forex between U.S. dollars and Canadian dollars will affect the effective yield for U.S. shareholders.

¹ Years of Dividend Growth in C\$; Dividend Increase on a TTM basis in C\$; Shares in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.0	12.9	11.7	9.9	13.0	12.5	10.0	11.4	9.6	12.4	11.1	11.4
Avg. Yld.	4.0%	3.9%	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.7%	4.3%	4.2%

From fiscal 2012-2021, Scotiabank traded at an average price-to-earnings ratio of about 11.4. We use this multiple as the long-term fair P/E target. Using our 2022 EPS estimate, the bank currently trades at a price-to-earnings ratio of 11.1, which makes the stock fairly valued. BNS's yield is above average to the market, making it appealing to income investors. Its yield tends to stay above 4%, and it'll stay that way most of the time. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	48%	49%	51%	48%	46%	48%	49%	64%	46%	48%	48%

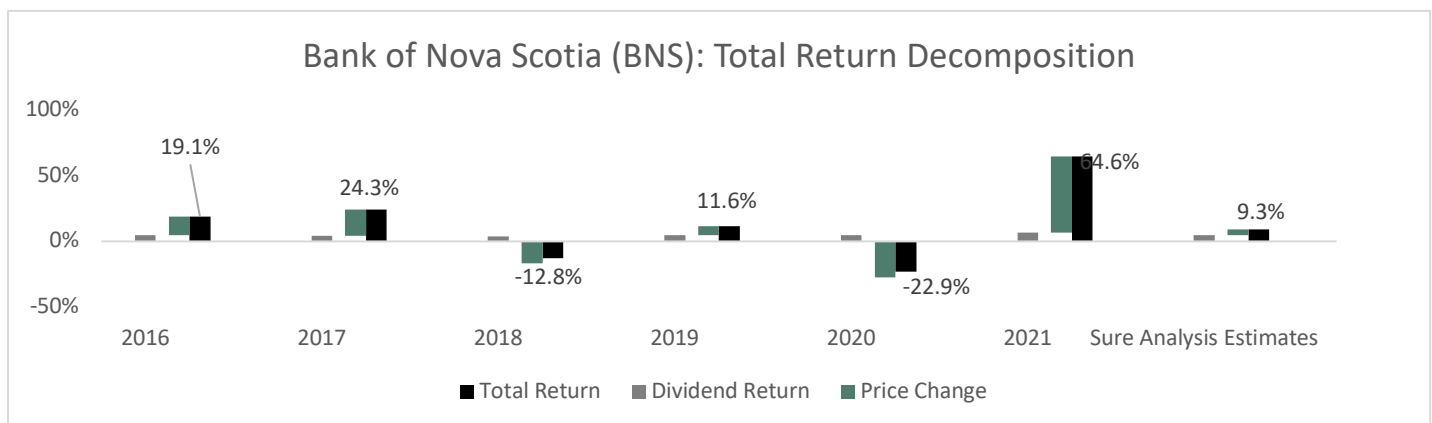
During the Great Recession, Bank of Nova Scotia increased its dividend and only froze its dividend in fiscal 2010 before resuming dividend growth afterwards. Similarly, the OSFI restriction led to a dividend freeze of 9 quarters because of the pandemic (and potential impacts to the economy). The stable bank came out with a dividend increase as soon as the ban was lifted. BNS normally has a payout ratio of about 50% that aligns with other big Canadian banks. Its payout ratio was higher than normal in fiscal 2020 due to a higher provision for credit losses from pandemic impacts. BNS's payout ratio has normalized, and we expect it to stay more or less 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. For example, management must have confidence in the Chilean market to increase its stake in Scotiabank Chile.

Final Thoughts & Recommendation

We see total annual returns of about 9.3% annually in the coming years. These returns should accrue from a yield of 4.3%, valuation expansion of 0.5%, and 5% earnings-per-share growth. As a result, the high-yield stock earns a buy recommendation from Sure Dividend, especially on dips.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	18,273	20,225	21,269	19,052	19,212	20,077	21,578	22,335	22,606	24,050
SG&A Exp.	6,222	6,615	6,532	5,860	5,763	6,083	6,246	6,823	6,746	7,110
D&A Exp.	444	506	483	471	516	582	659	792	1,150	1,201
Net Profit	6,165	6,257	6,489	5,652	5,367	6,121	6,644	6,313	5,042	7,650
Net Margin	33.7%	30.9%	30.5%	29.7%	27.9%	30.5%	30.8%	28.3%	22.3%	31.8%
Free Cash Flow	5,830	8,607	4,283	13,009	3,158	12,680	13,520	-9,188	41,576	-10,547
Income Tax	1,561	1,704	1,837	1,493	1,531	1,554	1,851	1,860	1,148	2,282

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (B)	668	709	719	651	668	713	761	825	853	956
Cash & Equivalents	47,346	50,884	50,657	56,161	34,545	46,506	47,461	35,482	58,279	70,264
Accounts Receivable	3,452	2,591	2,556	2,830	2,926	3,001	3,566	3,864	3,631	3,515
Goodwill & Int. Ass.	8,694	10,212	9,719	8,698	9,050	9,436	13,505	13,264	12,772	13,398
Total Liabilities (B)	627	666	675	610	625	665	709	772	800	897
Accounts Payable	8,853	7,679	6,677	5,575	5,954	6,887	7,162	6,989	6,237	7,198
Long-Term Debt	10,145	5,572	4,350	4,696	5,690	4,626	4,343	5,508	16,1570	19,5471
Shareholder's Equity	35,259	38,317	40,151	37,289	39,251	43,225	46,528	48,331	47,153	52,248
D/E Ratio	0.26	0.13	0.10	0.12	0.14	0.10	0.09	0.11	3.16	3.42

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.8%	0.6%	0.8%
Return on Equity	20.0%	17.0%	16.5%	14.6%	14.0%	14.8%	14.8%	13.3%	10.6%	15.4%
ROIC	13.6%	12.5%	4.5%	2.5%	2.5%	2.9%	3.0%	2.6%	2.2%	3.3%
Shares Out.	1,184	1,209	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,224
Revenue/Share	15.75	16.73	17.41	15.46	15.67	16.42	17.56	17.85	18.19	19.63
FCF/Share	5.03	7.12	3.50	10.56	2.58	10.37	11.00	-7.34	33.45	-8.61

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

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