



Bank of Nova Scotia (BNS)

Updated August 23rd, 2022 by Kay Ng

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	14.3%	Market Cap:	\$71B
Fair Value Price:	\$76	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/03/22
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	10/27/22
Dividend Yield:	5.4%	5 Year Price Target	\$97	Years Of Dividend Growth¹:	10
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 4 core business segments – Canadian Banking, International Banking, Global Wealth Management, and Global Banking & Markets. The bank stock 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 2022 results on 8/23/22. Scotiabank CEO, Brian Porter, noted a challenging macro environment, but the bank still had strong credit quality and grew its loan book. Specifically, Canadian Banking earnings rose 12% and International Banking earnings rose 28%. Their growth came from higher net interest income driven by loan growth of 14% and 12%, respectively. Global Wealth Management and Global Banking and Markets saw weaker results year over year. Particularly, Global Banking and Markets saw a 26% decline in earnings because of lower capital markets revenue from market conditions and lower advisory fees.

The overall results for the quarter were as follows: adjusted net income rose 2.0% to \$2,611 million, adjusted earnings-per-share (“EPS”) climbed 4.5% to C\$2.10, and the adjusted return on equity (“ROE”) improved 0.3% to 15.4% versus a year ago. The bank’s capital position remains solid with its Common Equity Tier 1 ratio at 11.4%, down from 11.6% a year ago. The fiscal year-to-date results provide a bigger picture. Adjusted net income was C\$8,134 million, up 9.1% year over year. Adjusted diluted EPS climbed 11.2% to C\$6.43. We updated our 2022 EPS estimate to \$6.70.

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	\$6.70	\$8.55
DPS	\$2.18	\$2.34	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.85	\$3.20	\$4.08
Shares¹	1,184	1,209	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,224	1,195	1,256

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. Inflation and interest rates are much higher than in the recent past, which don’t bode well for the economy, as both business and consumer spending would be dampened. Moreover, BNS could have more volatile earnings because of its exposure to international markets and different currencies. 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 by 11% in November 2021. And it looks like it has resumed its dividend growth path with another 3.0% dividend hike in May 2022. 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\$; Shares in millions

Disclosure: Kay Ng owns shares in TD.



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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	8.8	11.3
Avg. Yld.	4.0%	3.9%	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.7%	5.4%	4.2%

From fiscal 2012-2021 and 2017-2021, Scotiabank traded at an average price-to-earnings ratio of about 11.4 and 11.2, respectively. We use a long-term fair P/E target of 11.3. Using our 2022 EPS estimate, the bank currently trades at a price-to-earnings ratio of 8.8, which makes the stock undervalued. 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%

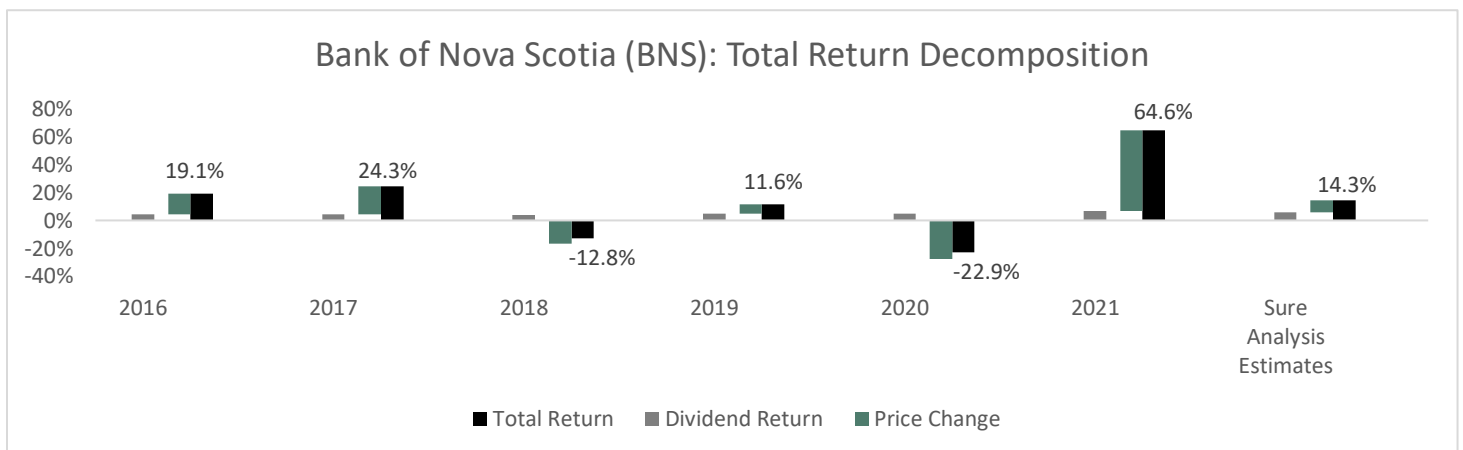
During the Great Recession, Bank of Nova Scotia increased its dividend and only froze its dividend in fiscal 2010 before resuming dividend growth afterwards. Similarly, the OSFI restriction led to a dividend freeze of 9 quarters because of the pandemic (and potential impacts to the economy). The stable bank came out with a dividend increase as soon as the ban was lifted. BNS normally has a payout ratio of around 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. Scotiabank's international focus is on Latin America geographies like Mexico, Peru, and Chile.

Final Thoughts & Recommendation

We see total annual returns of about 14.3% annually in the coming years. These returns should accrue from a yield of 5.4%, valuation expansion of 5.1%, and 5% earnings-per-share growth. As a result, the high-yield stock earns a buy recommendation from Sure Dividend.

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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