



Bank of Nova Scotia (BNS)

Updated November 30th, 2023 by Kay Ng

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	13.6%	Market Cap:	\$54B
Fair Value Price:	\$53	5 Year Growth Estimate:	4.8%	Ex-Dividend Date:	01/02/24
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	01/29/24
Dividend Yield:	7.0%	5 Year Price Target	\$67	Years Of Dividend Growth¹:	12
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Bank of Nova Scotia (often called Scotiabank) is one of the Big Five Canadian banks. 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 Q4 2023 results on 11/28/23. For the quarter, revenue rose 8.9% to C\$8.3 billion, while non-interest expenses jumped 22% to C\$5.5 billion. Ultimately, adjusted net income declined 36% to C\$1.7 billion, which translated to adjusted earnings-per-share (“EPS”) falling 39% to C\$1.26, being weighed down by higher non-interest expenses and higher provision for credit losses (PCL) that more than doubled year over year to C\$1.3 billion. The bank’s capital position improved – the Common Equity Tier 1 ratio was 13.0% versus 11.5% a year ago.

The full fiscal year results provide a bigger picture. Essentially, revenue growth was not enough to cover higher PCL and non-interest expenses. Revenue rose 2.8% to C\$32.3 billion. Non-interest expenses rose 12% to C\$19.1 billion, while the PCL was 2.5 times year over year at C\$3.4 billion, reflecting a negative macroeconomic outlook. PCL was 0.44% of average net loans and acceptances versus 0.19% in the prior-year period. The adjusted net income ended up 21% lower at C\$8.4 billion, resulting in adjusted EPS that was 23% lower at C\$6.54, which translates to US\$4.81. The adjusted return on equity (ROE) lowered to 11.7% from 15.7% a year ago. We initiate our BNS’s fiscal 2024 EPS estimate at US\$5.05.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.75	\$4.28	\$4.50	\$5.10	\$5.35	\$5.39	\$4.14	\$6.15	\$6.26	\$4.81	\$5.05	\$6.38
DPS	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.85	\$3.13	\$3.10	\$3.12	\$3.80
Shares	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,224	1,191	1,214	1,220	1,281

Scotiabank’s 10-year EPS growth rate was just north of 2.4% in Canadian dollars and essentially flat when converted to USD. 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 example, a relatively strong USD versus CAD would weaken its results when translated into USD. For now, we give BNS an EPS growth rate of 4.8% and a DPS growth rate of 4.0% through 2029. We set our 2024 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. 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.

¹ Years of Dividend Growth in C\$; Shares in millions

Disclosure: Kay Ng owns shares in BNS.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.7	9.9	13.0	12.5	10.0	11.4	9.6	12.4	10.2	8.9	8.9	10.5
Avg. Yld.	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.7%	5.1%	6.0%	7.0%	5.7%

From fiscal 2014-2023 and 2019-2023, Scotiabank traded at an average price-to-earnings ratio of about 11.0 and 10.5, respectively. We use the more conservative P/E of 10.5 as our target due to the more negative outlook. Using our 2024 EPS estimate, the bank currently trades at a price-to-earnings ratio of 8.9, which makes the stock slightly undervalued. BNS's yield is above average to the market, making it appealing to income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	51%	48%	46%	48%	49%	64%	46%	50%	64%	62%	59%

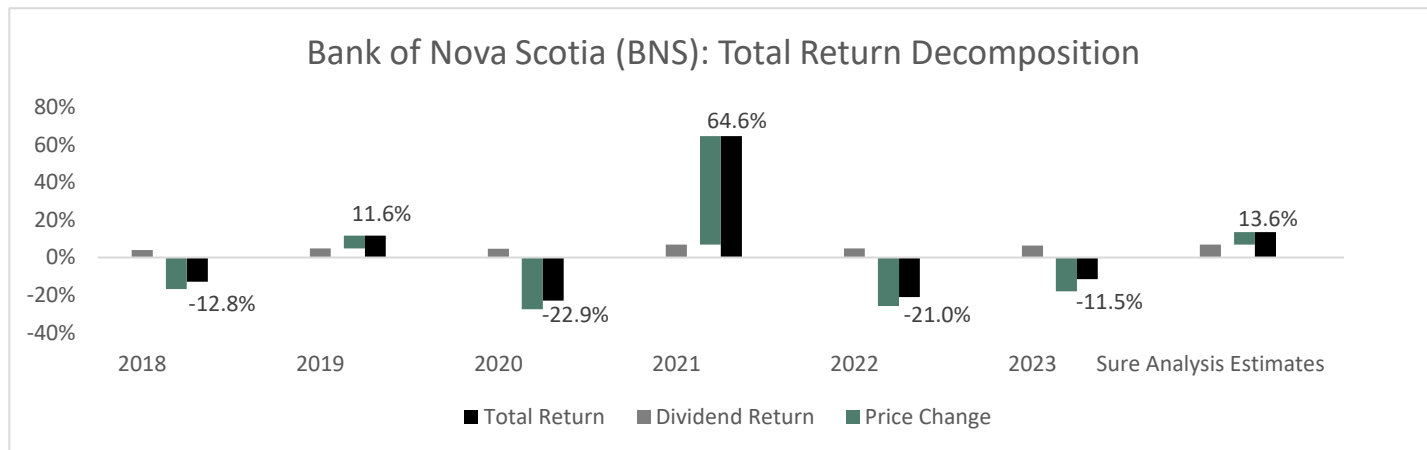
During the Great Recession, Bank of Nova Scotia increased its dividend and only froze its dividend in fiscal 2010 before resuming dividend growth afterwards. Similarly, the OSFI regulatory restriction led to a dividend freeze of 9 quarters because of the pandemic (and potential impacts to the economy). The 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 is again higher than normal, but we expect it to head towards 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. For the time being, this global strategy is weighing on its results but its juicy dividend is still sustainable from its earnings.

Final Thoughts & Recommendation

BNS trades at a discount valuation versus the other big Canadian bank stocks because of the higher risk in its international operations. We see total annual returns of about 13.6% annually in the coming years. These returns should accrue from a yield of 7.0%, valuation expansion of 3.4%, and 4.8% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	21,269	19,052	19,560	20,452	21,931	22,861	23,129	24,571	24,193	23,555
SG&A Exp.	6,532	5,860	5,763	6,083	6,246	6,823	6,746	7,110	7,236	7,538
D&A Exp.	483	471	516	582	659	792	1,150	1,201	1,189	1,349
Net Profit	6,489	5,652	5,367	6,121	6,644	6,313	5,042	7,650	7,702	5,491
Net Margin	30.5%	29.7%	27.4%	29.9%	30.3%	27.6%	21.8%	31.1%	31.8%	23.3%
Free Cash Flow	4,283	13,009	3,158	12,680	13,520	-9,188	41,576	-10,547	12,716	23,181
Income Tax	1,837	1,493	1,531	1,554	1,851	1,860	1,148	2,282	2,142	1,650

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (B)	719	651	668	713	761	825	853	956	992	1,020
Cash & Equivalents	50,657	56,161	34,545	46,506	47,461	35,482	57,392	69,655	48,419	65,304
Accounts Receivable	2,556	2,830	2,926	3,001	3,566	3,864	3,631	3,515	3,986	5,152
Goodwill & Int. Ass.	9,719	8,698	9,050	9,436	13,505	13,264	12,772	13,398	12,369	12,432
Total Liabilities (B)	675	610	625	665	709	772	800	897	937	963
Accounts Payable	6,677	5,575	5,954	6,887	7,162	6,989	6,237	7,198	9,232	12,277
Long-Term Debt	195,192	181,271	165,540	169,238	180,354	192,719	161,570	195,471	225,971	224,600
Shareholder's Equity	40,151	37,289	39,251	43,225	46,528	48,331	47,153	52,248	47,872	29,787
D/E Ratio	4.56	4.59	3.95	3.62	3.63	3.76	3.16	3.42	4.20	4.04

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	0.8%	0.8%	0.9%	0.9%	0.8%	0.6%	0.8%	0.8%	0.5%
Return on Equity	16.5%	14.6%	14.0%	14.8%	14.8%	13.3%	10.6%	15.4%	15.4%	11.2%
ROIC	4.5%	2.5%	2.5%	2.9%	3.0%	2.6%	2.2%	3.3%	2.9%	1.9%
Shares Out.	1222	1232	1226	1223	1229	1251	1243	1225	1208	1204
Revenue/Share	17.41	15.46	15.95	16.72	17.84	18.27	18.61	20.06	20.03	19.56
FCF/Share	3.50	10.56	2.58	10.37	11.00	-7.34	33.45	-8.61	10.53	19.25

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

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