



Bank of Nova Scotia (BNS)

Updated May 29th, 2024 by Kay Ng

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	11.8%	Market Cap:	\$57B
Fair Value Price:	\$51	5 Year Growth Estimate:	4.8%	Ex-Dividend Date:	07/03/24
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	07/29/24
Dividend Yield:	6.7%	5 Year Price Target	\$64	Years Of Dividend Growth¹:	12
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Bank of Nova Scotia (often called Scotiabank) is one of the Big Five Canadian banks. Scotiabank reports in four 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 Q2 2024 results on 05/28/24. For the quarter, revenue rose 5.5% to C\$8.3 billion, while non-interest expenses rose 3.0% to C\$4.7 billion. Provision for credit losses (“PCL”) increased by 42% year over year to C\$1 billion, which weighed on earnings. As a result, net income fell 2.5% to C\$2.1 billion and diluted earnings per share (“EPS”) fell 6.5% to C\$1.57.

The fiscal year-to-date results show a bigger picture. Revenue rose 5.7% to C\$16.8 billion. Non-interest expenses increased by 4.6% to C\$9.5 billion, while PCL rose 46% to almost C\$2 billion. The PCL as a percentage of average net loans & acceptances was 0.52%, up from 0.35% a year ago, whereas the PCL on impaired loans as a percentage of average net loans & acceptances was 0.51%, up from 0.31% a year ago. So, the impaired loans are getting close to its reserve levels. Net income came in at C\$4.3 billion, which was 10% higher and diluted EPS of C\$3.25, up 7.6%. Highlights include its Mexican (a priority area for its business) earnings and deposits rising 19% and 23%, respectively. As well, the bank added 95,000 net new primary clients in Canadian Retail Banking.

The bank’s capital position improved – the Common Equity Tier 1 ratio was 13.2% versus 12.3% a year ago. Scotiabank’s adjusted return on equity (ROE) decreased to 11.3% from 12.3% a year ago. We have reduced our BNS’s fiscal 2024 EPS estimate to US\$4.81, as PCL could increase and the C\$ has been weak.

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	\$4.81	\$6.08
DPS	\$2.35	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.85	\$3.13	\$3.10	\$3.10	\$3.77
Shares¹	1,217	1,203	1,208	1,199	1,227	1,216	1,211	1,224	1,191	1,214	1,221	1,282

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. 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.

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

Disclosure: This analyst has a position in the security discussed in this research report.



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A relatively strong USD versus CAD would weaken its results when translated into USD. For now, we estimate that BNS will have 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.

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	9.7	10.5
Avg. Yld.	3.8%	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.7%	5.1%	6.0%	6.7%	5.9%

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 9.7, which makes the stock fairly valued. BNS's yield is above average compared to the market, making it appealing to income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

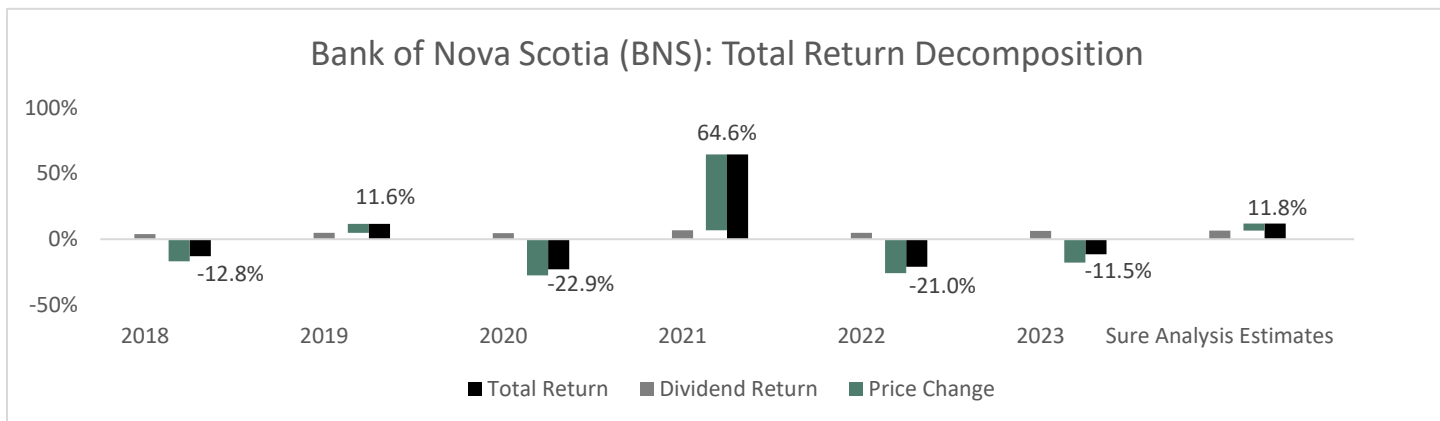
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	51%	48%	46%	48%	49%	64%	46%	50%	64%	64%	62%

During the Great Recession, Bank of Nova Scotia increased its dividend and only froze its dividend in fiscal year 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.

Final Thoughts & Recommendation

BNS trades at a lower P/E than the other big Canadian bank stocks because of the higher risk in its international operations. We see total annual returns of about 11.8% annually in the coming years. These returns should accrue from a yield of 6.7%, valuation expansion of 1.7%, and 4.8% earnings growth. The high-yield stock earns a hold today.

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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