



# Bank of Nova Scotia (BNS)

Updated December 7<sup>th</sup>, 2024 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	9.0%	<b>Market Cap:</b>	\$70B
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	01/07/25
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	01/29/25
<b>Dividend Yield:</b>	5.5%	<b>5 Year Price Target</b>	\$69	<b>Years Of Dividend Growth<sup>1</sup>:</b>	12
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 Q4 and full-year 2024 results on 12/03/24. For the quarter, revenue rose 3.1% to C\$8.5 billion, while non-interest expenses fell 4.2% to C\$5.3 billion. Provision for credit losses (“PCL”) declined by 18% year over year (“YOY”) to C\$1.0 billion, weighing less on earnings compared to a year ago. As a result, net income rose 25% to C\$1.7 billion and diluted earnings per share (“EPS”) rose 23% to C\$1.22. The bank’s PCL as a percentage of average net loans & acceptances was 0.54%, down from 0.65% a year ago, whereas the PCL on impaired loans as a percentage of average net loans & acceptances was 0.55%, up from 0.42% a year ago.

The fiscal year saw revenue rising 4.5% to C\$33.7 billion. Non-interest expenses increased by 3.0% to C\$19.7 billion, while PCL rose 18% to C\$4.1 billion. The PCL as a percentage of average net loans & acceptances was 0.53%, up from 0.44% a year ago, whereas the PCL on impaired loans as a percentage of average net loans & acceptances was 0.46%, up from 0.32% a year ago. Net income came in at C\$7.9 billion, which was 5.9% higher and diluted EPS of C\$5.87 was up 2.6%. Adjusted EPS was C\$6.47, marginally down by 0.2%. However, this year, the US\$ has strengthened against the currencies that Scotiabank earns, resulting in a 4.4% decline in adjusted EPS to US\$4.60 when translated to US\$. The bank’s capital position remained solid with the Common Equity Tier 1 ratio at 13.1% versus 13.0% a year ago.

Scotiabank’s adjusted return on equity (ROE) decreased to 11.3% from 11.6% a year ago. We initiate our BNS’s fiscal 2025 EPS estimate at US\$4.97.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$4.28	\$4.50	\$5.10	\$5.35	\$5.39	\$4.14	\$6.15	\$6.26	\$4.81	\$4.60	<b>\$4.97</b>	<b>\$6.34</b>
<b>DPS</b>	\$2.18	\$2.17	\$2.33	\$2.55	\$2.63	\$2.67	\$2.85	\$3.13	\$3.10	\$3.14	<b>\$3.05</b>	<b>\$3.71</b>
<b>Shares<sup>1</sup></b>	1,203	1,208	1,199	1,227	1,216	1,211	1,224	1,191	1,214	1,232	<b>1,244</b>	<b>1,306</b>

Scotiabank’s 10-year EPS growth rate was just north of 1.8% in Canadian dollars and down marginally by 0.3% annually when converted to USD, as its earnings experienced ups and downs through the economic cycle. 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. Sometimes, this global strategy can weigh on its results, but its juicy dividend is sustained by its earnings.

The bank has kept the quarterly dividend unchanged for seven consecutive quarters so far, suggesting it’s facing some challenges. A relatively strong USD versus the currencies it earns would weaken its earnings results when translated to

<sup>1</sup> Years of Dividend Growth in C\$; Shares in millions

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US\$. For now, we estimate that BNS will have an EPS growth rate of 5.0% and a DPS growth rate of 4.0% through 2030. We set our 2025 dividend estimate based on the forex rate at writing. Keep in mind that the fluctuations in the exchange rate 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	9.9	13.0	12.5	10.0	11.4	9.6	12.4	10.2	8.9	10.3	<b>11.2</b>	<b>10.8</b>
Avg. Yld.	4.6%	4.0%	3.6%	4.7%	4.6%	6.2%	4.7%	5.1%	6.0%	6.5%	<b>5.5%</b>	<b>5.4%</b>

From fiscal 2015-2024 and 2020-2024, Scotiabank traded at an average price-to-earnings ratio of about 10.8 and 10.3, respectively. We use 10.8 as our long-term target. Using our 2025 EPS estimate, the bank currently trades at a price-to-earnings ratio of 11.2, 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

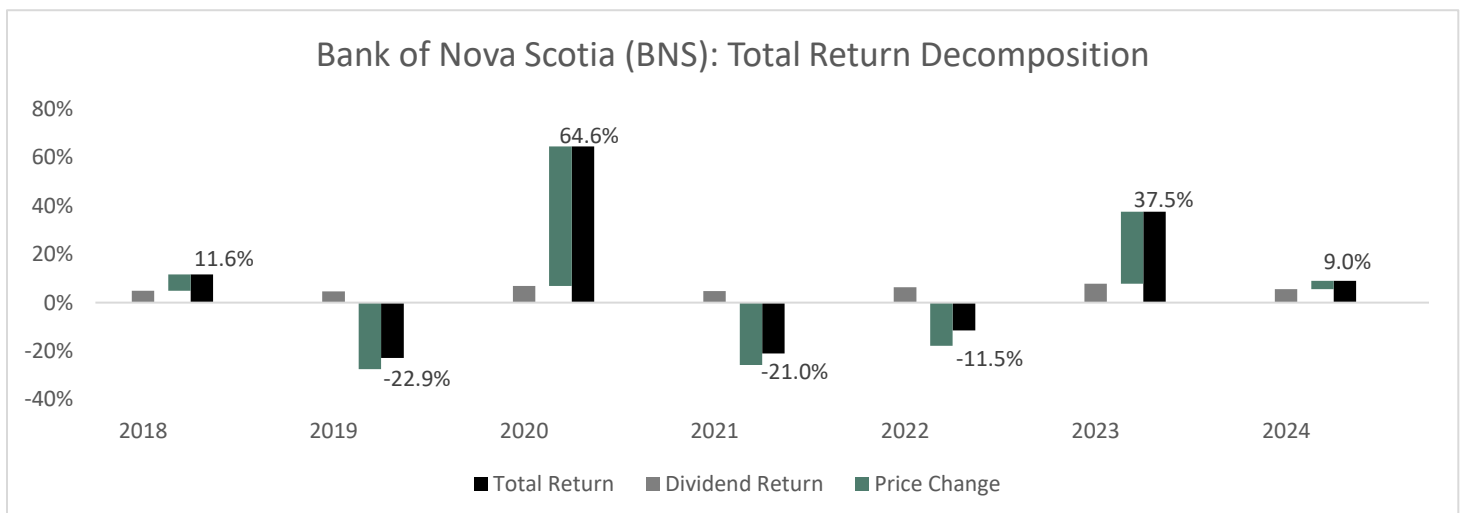
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	51%	48%	46%	48%	49%	64%	46%	50%	64%	68%	<b>61%</b>	<b>59%</b>

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 nine 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 9.0% annually in the coming years. These returns should accrue from a yield of 5.5%, -0.8% valuation compression, and 5.0% earnings growth. The high-yield stock earns a "hold" rating today.

## Total Return Breakdown by Year



<sup>1</sup> Years of Dividend Growth in C\$; Shares in millions

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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	19,052	19,560	20,452	21,931	22,861	23,129	24,571	24,193	23,555	24,700
<b>SG&amp;A Exp.</b>	5,860	5,763	6,083	6,246	6,823	6,746	7,110	7,236	7,538	7,692
<b>D&amp;A Exp.</b>	471	516	582	659	792	1,150	1,201	1,189	1,349	1,293
<b>Net Profit</b>	5,652	5,367	6,121	6,644	6,313	5,042	7,650	7,702	5,491	5,700
<b>Net Margin</b>	29.7%	27.4%	29.9%	30.3%	27.6%	21.8%	31.1%	31.8%	23.3%	23.5%
<b>Free Cash Flow</b>	13,009	3,158	12,680	13,520	-9,188	41,576	-10,547	12,716	23,181	11,140
<b>Income Tax</b>	1,493	1,531	1,554	1,851	1,860	1,148	2,282	2,142	1,650	1,493

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets (B)</b>	651	668	713	761	825	853	956	992	1,020	1,015
<b>Cash &amp; Equivalents</b>	56,161	34,545	46,506	47,461	35,482	57,392	69,655	48,419	65,304	45,910
<b>Accounts Receivable</b>	2,830	2,926	3,001	3,566	3,864	3,631	3,515	3,986	5,152	5,371
<b>Goodwill &amp; Intangibles</b>	8,698	9,050	9,436	13,505	13,264	12,772	13,398	12,369	12,432	12,120
<b>Total Liabilities (B)</b>	610	625	665	709	772	800	897	937	963	955
<b>Accounts Payable</b>	5,575	5,954	6,887	7,162	6,989	6,237	7,198	9,232	12,277	12,060
<b>Long-Term Debt</b>	181,271	165,540	169,238	180,354	192,719	161,570	195,471	225,971	224,600	214,020
<b>Shareholder's Equity</b>	37,289	39,251	43,225	46,528	48,331	47,153	52,248	47,872	29,787	52,910
<b>D/E Ratio</b>	4.59	3.95	3.62	3.63	3.76	3.16	3.42	4.20	4.04	3.61

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	0.8%	0.8%	0.9%	0.9%	0.8%	0.6%	0.8%	0.8%	0.5%	0.6%
<b>Return on Equity</b>	14.6%	14.0%	14.8%	14.8%	13.3%	10.6%	15.4%	15.4%	11.2%	9.7%
<b>ROIC</b>	2.5%	2.5%	2.9%	3.0%	2.6%	2.2%	3.3%	2.9%	1.9%	2.1%
<b>Shares Out.</b>	1232	1226	1223	1229	1251	1243	1225	1208	1204	1232
<b>Revenue/Share</b>	15.46	15.95	16.72	17.84	18.27	18.61	20.06	20.03	19.56	20.05
<b>FCF/Share</b>	10.56	2.58	10.37	11.00	-7.34	33.45	-8.61	10.53	19.25	9.04

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

### Disclaimer

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