

August 28, 2015

Scotiabank sees gains in international operations profit

By DAVID BERMAN

Bank posts third-quarter earnings of \$1.8-billion compared with \$2.3-billion a year ago, and raises quarterly dividend by 2 cents a share

Concern about Bank of Nova Scotia's heavy exposure to struggling emerging market economies appeared to subside after the lender reported upbeat quarterly results that were driven in part by its international operations, where profit rose 11 per cent from last year.

"In international banking, we are seeing strong asset and deposit growth in our Pacific Alliance countries, as well as an improved contribution from Thanachart," the Thailand-based bank, Brian Porter, Scotiabank's chief executive officer, said during a conference call with analysts.

Among the Big Six banks, Scotiabank has by far the largest operations in emerging markets. Revenue from key countries such as Mexico, Peru, Chile and Colombia totalled \$2.3-billion in the third quarter, only half a billion dollars shy of revenue from its home base in Canada.

This exposure had been seen as a liability in recent months. Widespread concerns about lower commodity prices and shifting U.S. monetary policy has hurt the economic outlook among some countries that had previously enjoyed enviable growth – and this outlook weighed upon Scotiabank's share price in 2014, making it the worst-performing stock among the Big Six.

But the bank wrapped up the third-quarter reporting season for Canada's big banks with earnings that beat expectations, completing a trend that saw all of the banks report strong results.

Profit at Scotiabank fell to about \$1.8-billion, down from more than \$2.3-billion last year. However, after adjusting for the sale of its stake in CI Financial Corp., which boosted results in the third quarter of 2014 by \$555-million, the bank's profit rose about 3 per cent over last year.

Similarly, on a per-share basis, profit fell to \$1.45 from \$1.85. But after accounting for the CI Financial sale and making a few other adjustments, profit rose to \$1.47 a share, up 4 per cent from last year and slightly ahead of analysts' expectations.

The bank also raised its quarterly dividend by 2 cents a share, to 70 cents, as expected.

In trading Friday on the Toronto Stock Exchange, the shares fell 0.82 per cent.

"Results this quarter were not as dramatically positive as we have seen at some peers, but we would argue that these numbers are better than what they appear to be," Meny Grauman, an analyst at Cormark Securities, said in a note.

Apart from double-digit operating profit growth in its international banking division, profit from Canadian banking rose by 15 per cent.

The only notable soft spot was in investment banking, where profit fell to \$375-million from \$446-million last year, or below expectations.

Far from shying away from emerging markets in Latin America, Scotiabank has been adding to positions in the region – essentially doubling down on its exposure as some other players leave. It recently reached an agreement to buy Citigroup's retail and commercial banking businesses in Panama and Costa Rica for \$360-million.

Mr. Porter suggested that Scotiabank remains keen to continue to expand, even if that means tapping capital markets to fund a large acquisition.

"Things are coming to us," he said in the conference call with analysts. "As bank valuations around the world readjust given what's gone on in markets, and valuations in all the Pacific Alliance countries have come down ... we're poised and ready for any opportunities that come our way."

In line with other banks, Scotiabank also revealed that the contracting Canadian economy and depressed energy sector is not yet showing up in its domestic banking activities, fuelling the debate over whether the economic impact is delayed or not coming.

Sean McGuckin, Scotiabank's chief financial officer, noted that it is easy to focus on areas of the economy that are not performing well, such as energy production – but said the Canadian economy is actually quite well diversified.

"The economy seems pretty resilient," he said.

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