

## Bank of Nova Scotia

## Solid quarter, low expectations drive outperformance

Reiterate Rating: NEUTRAL | PO: 67.00 CAD | Price: 65.90 CAD

## No change to outlook

Scotia (BNS) shares outperformed peers after reporting 1Q24 EPS of \$1.69 that beat our/cons. \$1.61 ests. Beat driven by higher PPPT (+8%/4% vs BofAe/consensus), partially offset by higher PCLs (+4%/5%). While no major surprises, sequential NIM expansion and better than expected CET1 capital build, plus low expectations, drove positive stock reaction. We trim FY24/25e EPS to \$6.35/\$7.20 from \$6.43/\$7.32, reflecting larger corp. seg. loss driven by fewer rate cuts, elevated PCLs FY24. Assume GBM LatAm normalizes to \$275-\$300mn vs. the \$372mn net income contribution 1Q24.

## Mitigating actions soften CET1 hit

Net -50bp impact to CET1 capital (12.9% 1Q24) from regulatory changes a positive surprise vs management's guidance for -70bp. Despite further increases to the capital floor through 2026, earnings accretion combined with RWA mitigation should keep the bank above its target range of 12-12.5%+ CET1 while ending the DRIP discount (assume 2Q24). We see it as unlikely that the OSFI will increase the DSB buffer in June, given our expectations for a softening economy (and the countercyclical mandate of the DSB).

## Higher for longer a headwind

While mgmt. expressed comfort that PCLs should stay within 45-55bp guidance range, we believe a higher for longer rate environment poses downside EPS risks. GILs +6bp QoQ and net write-offs +7bp driven by unsecured consumer, auto and the international segment. Mgmt's macro forecast assumes UE rate at 6.5% by YE24 vs. 5.8% currently, however during the call, mgmt. downplayed the credit impact of higher UE rate (citing immigration). While we are not worried about mortgage book losses, we believe higher rates (5yr yield) could squeeze consumers, driving delinquencies in unsecured consumer.

## Positive proof points, rate cuts needed

To deliver sustained outperformance, we believe that the following needs to happen: rate cuts from the BoC would be viewed as a positive for Scotia given a liability sensitive balance sheet with 4-6 cuts expected to contribute ~\$1bn to net income (via lower loss in corporate segment). Beyond "rate trade" investors will need to see proof points that CEO Scott Thomson's turnaround efforts are bearing results, putting Scotia on path for 14% ROE (vs. 11.9% adj. 1Q24). No change to Neutral rating and \$67 PO.

Estimates (Oct) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.49	6.49	6.35	7.20	7.80
GAAP EPS	8.01	5.73	6.31	7.16	7.76
EPS Change (YoY)	7.7%	-23.6%	-2.2%	13.4%	8.3%
Consensus EPS (Bloomberg)			6.48	6.94	7.41
DPS	4.06	4.18	4.24	4.24	4.24
EPS (BNS - US\$)	6.59	4.81	4.70	5.33	5.77
DPS (BNS - US\$)	3.15	3.10	3.14	3.14	3.14
<b>Valuation (Oct)</b>					
P/E	7.8x	10.2x	10.4x	9.2x	8.4x
GAAP P/E	8.2x	11.5x	10.4x	9.2x	8.5x
Dividend Yield	6.2%	6.3%	6.4%	6.4%	6.4%

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27 February 2024

## Equity

## Key Changes

(C\$)	Previous	Current
2024E Rev (m)	33,366.2	33,364.5
2025E Rev (m)	35,519.6	35,461.1
2026E Rev (m)	37,134.6	37,261.3
2024E EPS	6.43	6.35
2025E EPS	7.32	7.20
2026E EPS	7.78	7.80

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## Stock Data

Price (TOR / NYS)	65.90 CAD / 48.69 USD
Price Objective	67.00 CAD / 51.00 USD
Date Established	18-Dec-2023 / 18-Dec-2023
Investment Opinion	A-2-7 / B-2-7
52-Week Range	55.20 CAD - 71.90 CAD
Market Value (mn)	80,008 CAD
Free Float	95.5%
Average Daily Value (mn)	259.77 USD
Shares Outstanding (mn)	1,214.1 / 1,214.1
BofA Ticker / Exchange	YBNS / TOR
BofA Ticker / Exchange	BNS / NYS
Bloomberg / Reuters	BNS CN / BNS.TO
ROE (2024E)	11.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

See inside for list of acronyms

# iQprofile<sup>SM</sup> Bank of Nova Scotia

## Income Statement Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	18,115	18,262	19,036	20,897	22,451
% change	6.8%	0.8%	4.2%	9.8%	7.4%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	31,777	31,847	33,364	35,461	37,261
Operating Expenses	(16,884)	(18,334)	(18,884)	(19,604)	(20,021)
% change	2.8%	8.6%	3.0%	3.8%	2.1%
Provisions Expense	(1,382)	(3,422)	(4,088)	(3,884)	(4,069)
% change	-23.6%	147.6%	19.5%	-5.0%	4.8%
Operating Pre-Tax Income	13,585	10,220	10,396	11,973	13,171
Operating Net Income to Comm S/Hold.	10,265	7,824	7,785	8,831	9,567
GAAP Net Income	9,680	6,919	7,748	8,781	9,520

## Balance Sheet Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	1,349,418	1,411,043	1,405,082	1,458,846	1,515,070
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	750,335	757,283	751,222	778,944	807,828
% change	16.8%	0.9%	-0.8%	3.7%	3.7%
Total Customer Deposits	916,181	952,333	967,589	1,005,038	1,044,865
% change	14.9%	3.9%	1.6%	3.9%	4.0%
Tangible Equity	48,317	51,574	55,334	58,962	63,326
Common Shareholders' Equity	74,749	78,571	82,751	86,330	90,647

## Key Metrics (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	20.9%	17.5%	19.9%	21.7%	23.2%
Loan / Deposit Ratio	81.9%	79.5%	77.6%	77.5%	77.3%
Tangible Common Equity / Assets	3.6%	3.7%	3.9%	4.0%	4.2%
ROA	0.80%	0.56%	0.55%	0.61%	0.63%
ROE	15.7%	11.6%	11.0%	11.9%	12.3%
RoTE	21.3%	15.7%	14.6%	15.5%	15.7%
Dividend Payout Ratio	47.8%	64.4%	66.8%	58.9%	54.4%
Efficiency Ratio (Cost / Income Ratio)	53.1%	57.6%	56.6%	55.3%	53.7%

## Quality of Earnings (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	43.0%	42.7%	42.9%	41.1%	39.7%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%

## Company Sector

Banks-Multinational/Universal

## Company Description

Scotiabank is the third-largest Canadian bank by market capitalization, and is the most international of the Canadian banks. In recent years, the bank has begun to consolidate operations, focusing more on Latin American countries, primarily Peru, Mexico, Chile, and Colombia, and less on Asia and the Caribbean.

## Investment Rationale

While the stock screens attractively, trading at a discounted valuation and offering an above peer average dividend yield, limited idiosyncratic catalysts combined with an increasingly uncertain macro backdrop keep us at a Neutral recommendation.

## Stock Data

Average Daily Volume	5,329,172
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2023	2024
Q1	1.86A	1.69A
Q2	1.69A	1.49E
Q3	1.72A	1.59E
Q4	1.23A	1.58E

## Key Changes

(US\$)	Previous	Current
2024E EPS	4.76	4.70
2025E EPS	5.41	5.33
2026E EPS	5.75	5.77

**Exhibit 1: BNS 1Q24 earnings variance table**

Earnings results vs BofAe and consensus estimates

BNS 1Q24 (C\$mn)	Actual	Cons	vs. Cons	BofAe	vs BofAe
<b>Consolidated</b>					
Net Income	2,212	1,976	11.9%	1,961	12.8%
Revenue	8,433	8,275	1.9%	8,221	2.6%
Expense	4,721	4,692	0.6%	4,781	-1.3%
PTPP	3,712	3,584	3.6%	3,440	7.9%
PCLs	962	920	4.6%	929	3.6%
Net Interest Income	4,773	4,782	-0.2%	4,801	-0.6%
Tax Rate	19.5%	21.5%	-200bp	16.9%	260bp
Issuance/(Buybacks) (mn shares)	8.08	12.3	-34.5%	8.0	1.0%
Adj. EPS	1.69	1.61	4.8%	1.61	5.1%
<b>Canadian Banking</b>					
Net Income	1,096	1,059	3.5%	1,032	6.2%
Revenue	3,387	3,338	1.5%	3,380	0.2%
Expense	1,497	1,531	-2.2%	1,605	-6.8%
PTPP	1,890	1,806	4.6%	1,774	6.5%
PCLs	378	388	-2.6%	351	7.6%
Net Interest Income	2,653	2,574	3.1%	2,614	1.5%
Loan Growth (QoQ)	-0.3%	-0.2%	-10bp	-1.0%	70bp
NIM	2.56%	2.48%	8bp	2.55%	1bp
<b>International Banking</b>					
Net Income	774	611	26.7%	538	43.8%
Revenue	3,103	2,844	9.1%	2,814	10.3%
Expense	1,563	1,514	3.2%	1,534	1.9%
PTPP	1,540	1,330	15.8%	1,280	20.3%
PCLs	574	547	5.0%	540	6.3%
Net Interest Income	2,246	2,153	4.3%	2,136	5.2%
Loan Growth (QoQ)	-0.6%	-0.1%	-50bp	-1.0%	40bp
NIM	4.36%	4.19%	17bp	4.22%	20bp
<b>Global Wealth</b>					
Net Income	377	370	1.9%	361	4.3%
Revenue	1,365	1,331	2.6%	1,332	2.5%
Expense	853	841	1.4%	839	1.7%
PTPP	512	489	4.6%	493	3.9%
PCLs	5	4	36.9%	5	0.0%
<b>Global Banking</b>					
Net Income	439	448	-2.1%	534	-17.8%
Revenue	1,379	1,419	-2.8%	1,513	-8.9%
Expense	801	760	5.4%	778	2.9%
PTPP	578	660	-12.4%	735	-21.4%
PCLs	5	30	-83.1%	32	-84.6%
<b>Corp</b>					
Net Income	(474)	(369)	28.3%	(412)	15.2%
Revenue	(801)	(734)	9.2%	(818)	-2.0%
Expense	7	33	-78.5%	25	-72.0%
PTPP	(808)	(766)	5.4%	(843)	-4.1%
PCLs	0	-	-	-	-

Source: BofA Global Research estimates, company filings, company-compiled consensus

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## Acronyms

CET1: Common equity tier 1 capital

PCLs: Provision for credit losses

PPPT: Pre-provision pre-tax

NIM: Net interest margin

RWA: Risk-weighted assets

GBM: Global Banking and Markets

DRIP: Dividend reinvestment plan

DSB: Domestic stability buffer

GILs: Gross impaired loans

UE: Unemployment

BoC: Bank of Canada

ROE: Return on equity

OSFI: Office of the Superintendent of Financial Institutions

## Price objective basis & risk

### Bank of Nova Scotia (YBNS / BNS)

Our \$67 PO (US\$51) is calculated based off of applying a P/BV multiple of 1.2x (50% weight) to our YE24e BV and a 9.7x P/E (50% weight) to our 2024eP/E. These multiples are below peer multiples at 12.0x P/E and 1.4 P/B for the group given heightened uncertainty surrounding EPS/ROE outlooks.

Upside risks: 1) continued resilience of the Canadian consumer and thereby its housing market could alleviate the risk from a housing slowdown, 2) better than expected economic growth in the LatAm markets, which could accelerate loan growth and keep credit losses at a moderate level, and 3) successful push to grow core deposits and thereby improve profitability through a shift in funding mix toward lower-cost source of funds.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate could lead to higher credit losses, 2) a worse than expected slowdown in Latin American economies could lead to anemic loan growth and accelerating credit losses, 3) inability to grow core deposits and continued reliance on higher cost of funds, thereby weakening profitability.

## Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett



## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

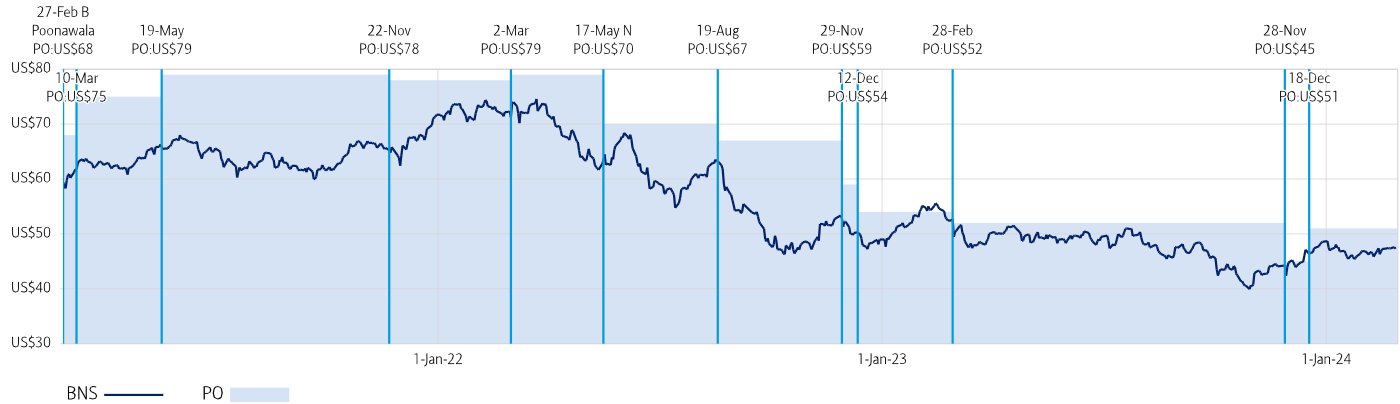
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# Disclosures

## Important Disclosures

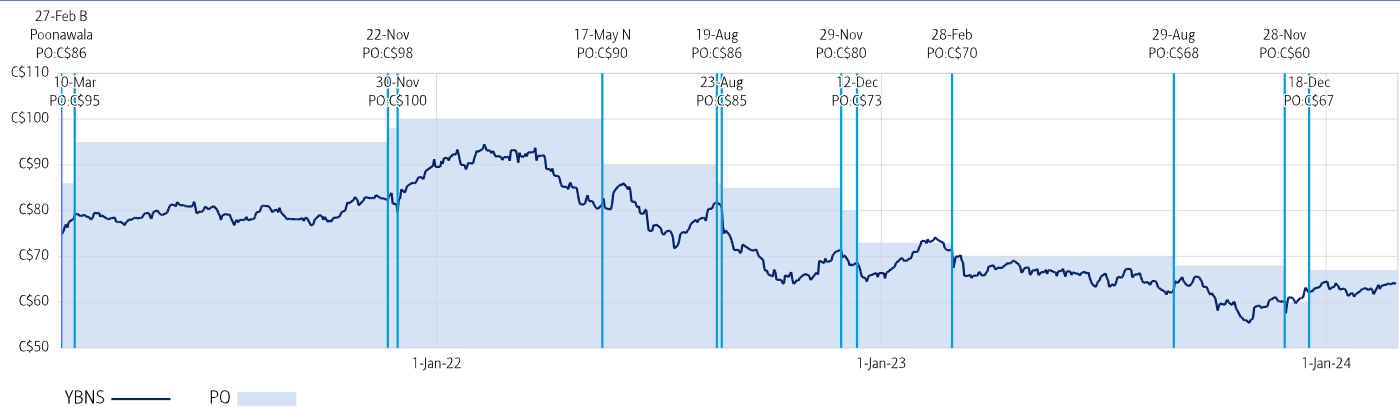
### Bank of Nova Scotia (BNS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Bank of Nova Scotia (YBNS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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