



## Should You Buy Bank of Nova Scotia or CI Financial?

### Description

Last week, **Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) announced it was looking to “monetize” its 37% stake in **CI Financial** ([TSX: CIX](#)). The position is worth nearly \$3.6 billion at current prices, a significant amount of money even for Canada’s third-largest bank.

The move ends a relationship that has seen its ups and downs. The climax occurred when Bank of Nova Scotia withheld its votes for two board nominees at CI in 2011, prompting CI Chairman Bill Holland to call the move “truly idiotic”, “mean-spirited”, and “petty”.

Since the announcement, shares of CI have fallen nearly 7% based on the belief that Bank of Nova Scotia will have to sell its stake at a discount. Has that created an opportunity to buy CI shares? Or is it better to buy the stock of Bank of Nova Scotia itself? Below we take a closer look at both companies.

### CI Financial

CI Financial is one of Canada’s premier asset managers, with over \$97 billion in assets under management. Its fund performance has been among the best in the industry according to Morningstar, something that’s been the case for a long time. The performance of CI’s shares reflects this; over the past 15 years, the stock has returned over 15% per year.

CI’s main problem is distribution. First of all, Scotiabank will not be pushing CI’s products like it has done in the past. The same can be said for **Sun Life Financial**, which is trying hard to build up its own asset management business. Perhaps most threatening of all is the growth of exchange-traded funds, which are resonating well with investors tired of paying sky-high fees for actively managed funds.

CI also has a fairly expensive share price. Despite the recent drop, the company still trades at over 10% of AUM and over 20 times earnings. Clearly, the market is optimistic about CI’s future, although this may not be warranted. You’re probably better off staying on the sidelines.

### Bank of Nova Scotia

By selling CI, Bank of Nova Scotia will reduce its earnings per share by \$0.03, but it should be able to

make that up by redeploying that money towards better uses. The sale will also boost its capital ratios by at least 100 basis points, not a small amount. Considering how richly CI is valued, the sale is likely a net positive for the bank.

Bank of Nova Scotia is a very compelling option for investors, especially now that the sale has been announced. The stock has not done as well as the other banks, mainly due to Bank of Nova Scotia's emerging markets exposure, and as a result is not very expensive. The shares trade at about 13 times trailing earnings, a very reasonable number for a bank with such promising growth prospects.

### **So what should you do?**

Right now, it seems like Bank of Nova Scotia is the better option for investors. Meanwhile, CI's shares seem overvalued. Maybe that's why Bank of Nova Scotia is selling its stake.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CIX (CI Financial)

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1. Investing

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