Royal Bank of Canada vs. Bank of Nova Scotia: Which Should You Buy?

Description

There is no denying that the big five banks earn healthy profits here in Canada, but growing earnings elsewhere has proven to be a challenge. **Toronto Dominion Bank** and **Bank of Montreal** have struggled to earn an adequate return in the United States, while **Canadian Imperial Bank of Commerce** is focusing on domestic banking after being burned so badly during the financial crisis.

This leaves **Royal Bank of Canada** (TSX: RY)(NYSE: RY) and **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS), two banks that have fantastic international operations. Below we take a look at each company in an attempt to determine which is better for your portfolio.

Royal Bank of Canada

This bank's global ambitions mainly centre around wealth management and capital markets — not only is it the Canadian leader in those two categories, but it also ranks among the top 10 globally. This certainly comes with plenty of risk, especially on the capital markets side, where trading losses can get severe if you're not careful.

The good news is that over the past five years, other global banks have been retreating, allowing it to step in and steal market share. As capital requirements grow worldwide, this looks set to continue, so it will keep playing offence for at least a few more years, which should be beneficial for shareholders.

The bad news is that the bank's shares are not particularly cheap after returning more than 30% over the past 12 months. In fact, the shares are trading at an all-time high. However, with everything going right for the bank, you must be willing to pay a price.

Bank of Nova Scotia

Last year Bank of Nova Scotia earned 48% of its income from outside Canada's borders, easily surpassing the other Canadian banks. This bank places a heavy emphasis on emerging markets, particularly Latin American countries such as Mexico, Colombia, Peru, and Chile. All of these countries have strong, growing economies, as well as under-banked populations. The bank should have no problem growing its bottom line.

Interestingly, it trades at 13.4 earnings, exactly the same multiple as Royal Bank of Canada. However, the shares probably should trade higher. This is partly because of its concentration in Latin America, which should help it grow particularly quickly, but it's also because capital markets and wealth management, which is where Royal Bank of Canada specializes, is particularly risky.

That being said, all of the Canadian banks have been on a great run over the past 12 months, and trade above their historical averages, so there is a strong argument that you shouldn't buy *any* of them.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RY (Royal Bank of Canada)

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