3 Reasons to Buy The Bank Of Nova Scotia Instead of Bank of Montreal

Description

When constructing a portfolio, Canada's banks are often cited as a great place to start. After all, they are very well-established businesses, face limited competition, and make tons of money, much of which gets paid out in dividends. But which bank is the right one?

Below we take a look at two of the big five banks: **The Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) and **Bank of Montreal** (TSX: BMO)(NYSE: BMO). And when trying to decide which one of them to buy, the answer appears to be Bank of Nova Scotia. Here are the three biggest reasons.

1. Promise in Canada

Just to be clear, neither of these two banks have market-leading positions in Canada; they are both fighting against larger competitors such as **Toronto-Dominion Bank** and **Royal Bank of Canada**.

But Bank of Nova Scotia is placing a big priority on improving Canadian operations, and results have been promising in recent years. Earnings in Canadian banking have grown by 13% in the past three years, and the bank hopes to grow this division by an additional 8% per year going forward. The company recently signed a deal with Canadian Tire Financial Services to grow the credit card business, and one cannot forget about Tangerine, the no-fee bank acquired in 2012.

Bank of Montreal's Canadian banking business is not as promising. From 2011 to 2013, income grew at just 4% per year. Non-interest expenses were over 50% of total revenue last year, the highest in the industry. And the bank hasn't been making any major deals – even the employee count in the Canadian banking division has gone down.

2. The right kind of growth

Bank of Nova Scotia is Canada’s most international bank, with only about half of its net income coming domestically. The rest mostly comes from emerging markets, especially Latin America. And after becoming CEO, Brian Porter made it clear that he wants to focus on four countries in particular:Mexico, Colombia, Peru, and Chile. These countries all have healthy economies and under-bankedpopulations, which should allow Bank of Nova Scotia to grow nicely.

Meanwhile, nearly 70% of Bank of Montreal’s income came from Canada last year, and the U.S. accounted for almost all of the rest. These are not high-growth markets – Canada’s real estate market may be headed for a correction, and the United States is extremely competitive, and not an easy place for a bank to make money.

3. Track record

This might be the most important difference between the two banks.

Bank of Nova Scotia has had practically no major slip-ups since the mid-1990s, when it got caught up in the Mexican peso crisis. But Bank of Montreal has had its fair share of issues.

For one, the bank struggled mightily during the financial crisis, even having to raise equity after the stock price had fallen. Bank of Montreal has also started price wars, a bad move in Canadian banking – for example it was the first bank to offer 2.99% five-year mortgages, which drew the ire of then-finance minister Jim Flaherty.

The two companies’ historical stock prices tell the story perfectly. Over the past 10 years, Bank of Montreal shares have returned 7.45% per year, the lowest among the big five. Meanwhile, Bank of Nova Scotia shares have returned nearly 10% over this time. And while past results don’t guarantee future returns, Bank of Nova Scotia’s management has a lot less to prove.

CATEGORY

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2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BMO (Bank Of Montreal)
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Category

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