2 Big Reasons to Buy The Bank of Nova Scotia Instead of Royal Bank of Canada

Description

Royal Bank of Canada (TSX: RY)(NYSE: RY) is not only Canada's largest bank, but is also the country's largest company overall, with a market capitalization over $115 billion. And it's been firing on all cylinders recently — just last quarter, the bank set a new record with net income of $2.4 billion.

So it should be no surprise that many investors make RBC the top holding in their portfolios. But there are better options. One of them is **The Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS). Below are three reasons why.

1. Growth prospects

RBC is very well known for its capital markets and wealth management divisions, which combined for about a third of income in the most recent quarter. Not only have these businesses been performing well locally but internationally too, as other big banks have been pulling back.

But at the end of the day, RBC still is very concentrated in North America. Last quarter, 62% of revenue came from Canada and another 19% from the United States. This is troubling because Canada is a very mature market and the United States is ferociously competitive.

Meanwhile, The Bank of Nova Scotia is much more focused on international markets, which gives the bank more potential to grow earnings. To illustrate, last year Canada accounted for just 52% of earnings. And emerging markets — particularly Latin America — account for most of the rest. These countries typically have strong, growing economies, as well as underbanked populations.

2. Price

Normally, having greater growth prospects comes with a higher multiple. But not so in this case — RBC trades at 13.3 times earnings, while The Bank of Nova Scotia trades at just 11.6 times. The latter also has a slightly higher dividend yield of 3.9%, compared to RBC's 3.7%.

So why the difference? Well, it's partly because investors have gotten much more nervous about international markets, especially emerging markets. The Bank of Nova Scotia has gotten caught up in the mix. In fact, its shares were down 8% in the month of January alone. And even though its shares have recovered since then, they are only up 3% in 2014, worst among the Big 5 (RBC shares are up 12%).

But this sell-off is unfair to The Bank of Nova Scotia because its markets are not facing the same kinds of problems found in other emerging markets (strikes in South Africa, slowing growth in China, sanctions in Russia, turmoil in the Middle East, etc.). So there is a unique opportunity to buy The Bank of Nova Scotia shares at a discount.

This discussion does leave out the other three Big 5 banks. But the free report below covers those in greater detail.

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