



The Bank of Nova Scotia vs. Manulife Financial Inc.: Which Is the Best Value Investment?

Description

The Bank of Nova Scotia ([TSX: BNS](#))([NYSE: BNS](#)) and **Manulife Financial Inc.** ([TSX: MFC](#))([NYSE:MFC](#)) are both trading at significant discounts to their peers. Let's take a look at the two companies and see if one deserves to be in your portfolio.

The Bank of Nova Scotia

The third-largest bank in Canada is betting big on growth in Latin America. Investors appear to think this strategy poses a higher risk than that of the other banks.

The Bank of Nova Scotia trades at 11.6 times earnings, the lowest multiple in the group of five. The interesting thing about Scotiabank, as it is commonly known, is that it offers investors a very diversified income stream.

In its Q3 2014 earnings statement, The Bank of Nova Scotia announced revenues from four key sectors. Canadian banking represented the largest part, delivering 33% of earnings. International banking kicked in 24% of profits. Global banking and markets added another 24%, and 19% came from global wealth and insurance.

In Latin America, The Bank of Nova Scotia has operations in four key markets: Mexico, Peru, Colombia, and Chile. These four countries are working together to drive economic growth through the free movement of goods, capital, and labour. The group recently announced a deal to eliminate 92% of tariffs and already merged the four stock markets. The new trade agreement will enable businesses to expand their reach. The Bank of Nova Scotia's presence in all four countries is a great advantage when offering services to companies involved in international trade.

Many of the 200 million people living in the four countries are young, educated, and earning a comfortable living. These people want credit cards, mortgages, lines of credit, and investment products as their incomes increase.

The Bank of Nova Scotia is not only the cheapest Canadian bank, it also has the best Basel III

Common Equity Tier 1 (CET1) ratio at 10.9%. The ratio is a measure of the bank's financial strength.

The company is one of Canada's longest-standing dividend payers. The payout of \$2.64 per share yields about 3.9%.

Manulife Financial Inc.

Manulife took a severe beating during the Great Recession. The company cut its dividend in half and raised \$2.5 billion in capital to rescue its balance sheet. During the entire fiasco, shareholders saw a 75% peak-to-trough drop in the stock.

Today, Manulife is in much better shape, but the market still doesn't want to recognize the value. In fact, Manulife's shares trade at less than 10 times earnings, much lower than the other Canadian insurance companies.

The company has reduced its sensitivity to both changing interest rates and volatility in the equity markets. In its most recent earnings statement, Manulife also reported a Minimum Continuing Capital and Surplus Requirements ratio of 283%. This is significantly higher than the 150% required by the Canadian government.

Manulife recently raised its dividend by 19%. It also announced a \$4 billion deal to purchase the Canadian assets of **Standard Life plc**.

The company currently pays a dividend of \$0.64 that yields about 3%. The payout ratio is only 24%, so investors should see more distribution increases moving forward.

Which should you buy?

The Bank of Nova Scotia is a rock-solid holding and the market is not giving it credit for the potential growth in its international operations. Manulife is extremely cheap, and the low multiple is scaring some potential investors. The company has had inconsistent earnings in its international operations but the long-term outlook looks good.

Both companies are great long-term investments but I think Manulife probably offers the most upside potential.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:MFC (Manulife Financial Corporation)

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