



Which of the Big 3 Banks Is the Best Value Today?

Description

The market may be presenting investors with a buying opportunity in Canada's biggest banks after they had a super run of 20% or more since 2016.

This article will focus on the Big Three banks: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Since mid-February, these quality banks have dipped 5-6%. However, it is impossible to determine which of the three is the best value just by looking at their share prices. Instead, let's take a look at their valuations, recent profitability, and earnings-growth potential.

Which is the best value?

Which bank offers the best value for your buck today?

At about \$93.70 per share, Royal Bank trades at a price-to-earnings ratio (P/E) of about 13.1 and offers a 3.7% yield. Analysts estimate the bank to grow its earnings per share (EPS) at a compound annual growth rate (CAGR) of 4.5-6.1% for the next three to five years.

scotiabank-BNS-bank of nova scotia 16-9

At about \$64.20 per share, Toronto-Dominion Bank trades at a P/E of about 12.7 and offers a 3.7% yield. Analysts expect the bank to grow its EPS at a CAGR of 7.5-9.3% for the next three to five years.

At about \$75.30 per share, Bank of Nova Scotia trades at a P/E of about 12.1 and offers a 4% yield. Analysts expect the bank to grow its EPS at a CAGR of 7.4-9.1% for the next three to five years.

Comparing the above numbers, it would seem that Bank of Nova Scotia offers the best value for its growth potential.

That said, in the most recent quarter, Royal Bank's return on equity, 17.2%, was the highest of the three. Toronto-Dominion's was 13.6%, and Bank of Nova Scotia's was 14.1%. This means that for

every dollar of equity, Royal Bank generated 17 cents of net income. Royal Bank's higher profitability explains why it commands a higher multiple for its shares.

Investor takeaway

None of the Big Three Canadian banks are particularly expensive. However, earnings growth leads to higher share prices and healthy dividend growth over time. So, Bank of Nova Scotia is probably the best value of the three given that it trades at the lowest multiple and offer decent earnings growth.

If you're a long-term investor, the pullback is a good opportunity to buy some Bank of Nova Scotia shares for a safe and growing dividend, which yields 4% currently. If the banks pull back some more, you might want to start picking at the other two big banks, especially if or when they yield 4% or higher.

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
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