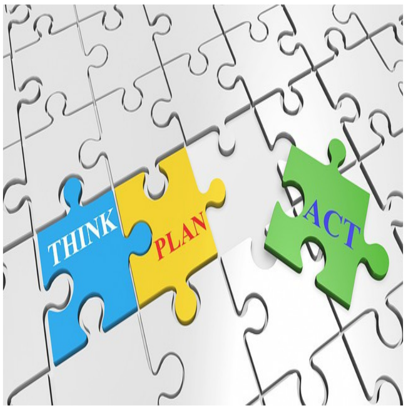

Toronto-Dominion Bank vs. Bank of Nova Scotia: Which Stock Is Good for Your TFSA?

Description

Canadian banks provide one of the best avenues for your investments through the Tax-Free Savings Account (TFSA). Canadian lenders run strong businesses, operate in a sound regulatory environment, and, on top of that, they pay growing dividends.

Let's have a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see which of these top lenders provides a better value to your TFSA dollars in today's market.

TD Bank

For long-term TFSA investors, TD Bank stock is a good choice for many reasons.

First, it has diversified business operations, thanks to its aggressive growth in the U.S. The bank now runs more branches in the U.S. than in Canada, making it one of the top 10 lenders in the U.S.

This massive presence south of the border means TD has access to the world's largest economy and more growth opportunities. In the first-quarter earnings release, TD made a record profit of $952 million from its U.S. retail business — a jump of 19% from a year earlier. Earnings will get a further boost from President Trump's tax relief, adding about $300 million to the bottom line this year.

The second reason I like TD for TFSA investors is that the lender is a solid income distributor. Its dividends have grown about 11% on annualized basis in the past two decades, putting the lender among the top dividend payers in Canada.

And with a relatively safe payout ratio of between 40% and 50%, there is a good chance that investors will continue to get this growth going forward. Trading at $76.03 and with an annual dividend yield of 3.52%, TD stock is fairly priced and has good growth potential.

Bank of Nova Scotia

Just like TD, Bank of Nova Scotia is another diversification play for investors. Instead of growing in the U.S., Bank of Nova Scotia focused on the emerging markets and created a niche for itself in South America.

It’s now one of the largest lenders in the Pacific Alliance — an economic bloc consisting of on Mexico, Peru, Chile, and Columbia. The region is forecast to contribute 30% to the bank’s total revenue over the next three years, up from 23% now.

One factor that distinguishes Bank of Nova Scotia from other lenders is its long and consistent history of rewarding investors with dividend payouts. The bank not only pays a dividend, but it’s also a great dividend-growth story. It’s hiked its payouts in 43 of the last 45 years.

Investors got two dividend hikes from this lender last year, growing its payout about 7%. The bank is expected to generate $7-8 billion of excess capital by 2020, and that may bring more dividend hikes or share buybacks.

Which one is better?

Trading at $79.80, Bank of Nova Scotia is down ~7% from the 52-week high. After this dip, its dividend yield is now more than 4% and juicier than TD’s. On the valuation metric, I think Bank of Nova Scotia stock is a better buy today. Still, I think dividing your cash equally between these two names will be a better way to benefit from the Canadian banking strength.

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