Toronto-Dominion Bank or Bank of Nova Scotia: Which Stock Should Be in Your TFSA?

Description

Canadian investors are searching for top dividend stocks to put inside their TFSA portfolios, and the Canadian banks often come up as popular recommendations.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see if one deserves to be on your buy list.

Earnings

TD generated adjusted 2017 net income of $10.5 billion, or $5.54 per share, representing a 14% increase over 2016. Canadian retail earnings rose 9%, U.S. retail earnings increased 13%, and wholesale banking earnings rose 13%.

Bank of Nova Scotia reported adjusted net income of $8.2 billion, or $6.49 per share. That was 8% better than the previous year. Canadian banking profits rose 9%, while international banking net income jumped 15%, and the global banking and markets group saw earnings rise 16% compared to 2016.

On a per-share basis, Bank of Nova Scotia comes out ahead, although TD generated better year-over-year overall earnings gains.

Dividends

TD has a compound annual dividend-growth rate of more than 10% over the past 20 years. The company recently raised the quarterly distribution by 11.7% to $0.67 per share. That's good for a yield of 3.7%.

Bank of Nova Scotia also increased its dividend when it announced fiscal Q1 2018 earnings. The quarterly payout increased by $0.03 to $0.82 per share. At the time of writing, the stock provides a yield of 4.2%.

Bank of Nova Scotia currently provides a higher yield, but TD's dividend growth tends to outpace its smaller competitor.

Risks

TD is widely viewed as the safest of the big Canadian banks due to its focus on retail banking activities. The company has limited exposure to the energy sector and relies less on capital markets activities to drive revenue than some of its peers. On the housing front, TD has $265 billion in Canadian residential mortgages, of which 42% is insured, and the loan-to-value ratio on the remainder is 50%.

TD's international operations are mainly focused on the U.S., where the company actually operates a larger branch network than in Canada. The U.S. division contributes more than 30% of TD's net income.

Bank of Nova Scotia has $208 billion in Canadian residential mortgages. Insured loans make up 48% of the portfolio, and the loan-to-value ratio is on the uninsured mortgages is 53%. The bank's energy sector exposure is higher than TD's, but it's not at a level that would be a significant issue if oil prices tank again.

Bank of Nova Scotia's international businesses are primarily located in Latin America, with Mexico, Peru, Chile, and Colombia being the major markets. The international operations contribute nearly 30% of the company's profits.

Both banks are capable of riding out a downturn in the housing market. In fact, house prices would have to fall significantly before either TD or Bank of Nova Scotia take a material hit.

The main risk differentiator could be Bank of Nova Scotia's large presence in Latin America. The region is often perceived as being potentially more volatile than developed markets, such as the United States.

Valuation

TD trades at 13.4 times trailing 12-month (TTM) earnings. Bank of Nova Scotia is cheaper at just 11.6 times TTM.

Which one is a better bet?

Both stocks should be reliable buy-and-hold picks for a dividend-focused TFSA.

If you only choose one, I think Bank of Nova Scotia might be more attractive right now. The long-term growth potential in Latin America is appealing, and the region likely carries less risk today than in the past.

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