

# Is There Ever a Wrong Time to Buy the Top Canadian Banks?

## Description

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) remains the leading Canadian bank in terms of having the largest market cap. **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, takes third place.

### The banks outperformed in the long run

Long-term shareholders of these banks have generated excellent total returns while receiving growing dividends. Since fiscal 2000, Royal Bank has delivered an annualized return of about 10.3%. In the same period, Scotiabank has delivered about 9.6% per year on average, while the U.S. market, represented by **S&P 500 Index**, has had returns of 4.2% per year.

### Dividend growth

About 20 years ago, the banks offered yields of less than 3%. Today their yields are closer to 4%. In the period, both Royal Bank and Scotiabank [increased their dividends](#) per share by a little more than 10% per year.

Royal Bank's five-year dividend growth rate is 8.8% compared to Scotiabank's 6.8%. However, Scotiabank currently offers a bigger yield of about 4.3%, compared to Royal Bank's yield of roughly 3.7%.



### Was there ever a bad time to buy the banks?

If you had bought Royal Bank or Scotiabank shares right before the financial crisis of 2008/2009, your investments would have delivered about 9.2% per year and about 6.9% per year, respectively.

Scotiabank has underperformed, which is partly due to the stock's valuation. If you compare the two banks' valuations to their historical norm, you'll notice that Scotiabank is more undervalued than Royal Bank.

Some investors point out that if one had waited to buy the banks during the financial crisis, they could have gotten the stocks at huge discounts — and get a big return boost. If one had bought the banks at the bottom during the financial crisis, one would have received annualized returns of about 16% for Royal Bank and 14% for Scotiabank.

However, this is all in hindsight. Sure, there are times when the banks are [significantly undervalued](#), but those opportunities don't come often. In the long run, it's time in the market that matters. If you wait for the banks to be super cheap before you buy them, you could be waiting for a long time.

So, there really isn't a bad time to buy the banks as long as you pay a reasonable multiple for the shares.

### Valuation and upside potential

Royal Bank's and Scotiabank's normal multiples for the long term are roughly 12.2 and 11.9, respectively. At about \$100 per share, Royal Bank trades at a multiple of about 12.3. At about \$76 per share, Scotiabank trades at a multiple of about 11.1. So, Scotiabank looks to be more undervalued.

The analysts from **Thomson Reuters Corp.** seem to agree. They think Royal Bank and Scotiabank have upside potential of about 11% and 15%, respectively.

### Investor takeaway

The banks are estimated to grow their earnings per share by about 8% per year for the next three to five years, which could lead to total returns of 11-12%, respectively. So, now is not a bad time to buy either bank. However, keep in mind that a big downturn can happen, at which time investors should sit tight and perhaps even back up the truck on the banks.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RY (Royal Bank of Canada)

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