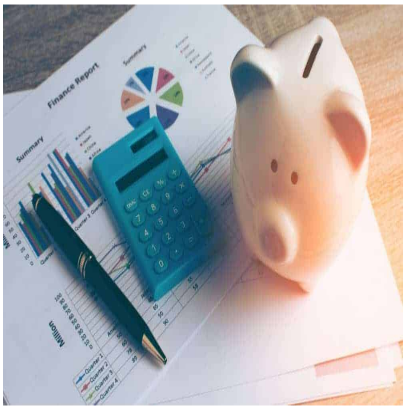

Which Is the Better Buy: Bank of Nova Scotia (TSX:BNS) or Laurentian Bank of Canada (TSX:LB)?

Description

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) and **Laurentian Bank of Canada** (TSX:LB) have been two of the weakest-performing Canadian bank stocks as of late. So far this year, Scotiabank stock has declined about 7%. Laurentian Bank stock has taken a huge beating — it has declined roughly 20% year to date.

Which bank should you consider today? Let's compare the two banks.

Business overview

Scotiabank is Canada's most international bank; it operates in almost 50 countries. It expects to experience higher growth in its international banking operations compared to its Canadian operations. However, its international banking operations are riskier.

In the last reported quarter, the provision for credit losses ratio for its international banking business was 1.22% versus 0.25% for its Canadian banking business.

Laurentian Bank was founded in 1846. It has $48 billion in balance sheet assets and $31 billion in assets under administration.

Why the stocks are down

Scotiabank stock has been weak lately because of recent acquisitions, which can cause dilution because it issued common stock.

The downtrend of Laurentian Bank stock began in December, at which time the bank announced that it had to buy back some mortgages that it sold to a third party. In combination with the update in May, the repurchases are estimated to make up less than 3.5% of its residential mortgages.

Valuation

At about $75 per share, Scotiabank trades at a price-to-earnings multiple of about 11, while it's estimated to grow its earnings per share by at least 7% per year for the next three to five years. Its five-year normal multiple is about 11.7. A fair-value estimate based on this normal multiple implies about 10% upside.

At about $45.50 per share, Laurentian Bank trades at a multiple of about 7.7, while it's estimated to grow its earnings per share by at least 4% per year for the next three to five years. Its five-year normal multiple is about 9.2. A fair-value estimate based on this normal multiple implies about 18% upside.

Dividend and dividend growth

At the recent quotation, Scotiabank offers a 4.3% yield, while Laurentian Bank offers a 5.6% yield. Both dividends are sustainable, and the banks should be able to grow their dividends at a rate of about 5% and 4%, respectively.

Which is the better buy?

Laurentian Bank is more undervalued. If the mortgage repurchase issue clears up, and investors regain confidence in the stock, the bank can deliver higher near-term total returns than Scotiabank.

Scotiabank is considered to be a core holding. It has a bigger scale and is more diversified. Investors can pretty much buy the stock on dips and hold on for stable growth and increasing income.

Investor takeaway

If you're looking for short-term above-average gains, consider starting a position in Laurentian Bank today and buying more if it dips to the $41-42 level. If you're looking for a long-term core bank holding, consider buying some Scotiabank stock today.

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