Bank of Nova Scotia (TSX:BNS) vs. Toronto-Dominion Bank (TSX:TD): Which Stock Is a Better Buy?

Description

If your investing objective is to earn stable dividend income, then avoiding Canadian banks won't be a good idea.

The biggest advantage of buying stocks of top Canadian banks is that you basically take exposure to companies that operate in an essential oligopoly. That operating environment is very conducive for banks to generate consistent returns for their investors who don't want to take too much risk.

Today I've picked two top banking stocks for you to compare and decide which one is a better buy.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS), Canada's third-largest lender, has been a reliable name when it comes to paying dividends. It has paid a dividend every year since 1832, while it has hiked its payouts in 43 of the last 45 years.

With this consistent dividend payouts, Scotiabank also offers a solid growth avenue. Instead of growing in the U.S., the Bank is focusing on South America to generate future growth for shareholders.

Following its aggressive growth in the region, BNS is 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% currently.

During the past few months, Scotiabank has concluded several deals to further cement its position at home and in emerging markets.

Some of its biggest deals included the majority stake in **BBVA Chile** for $2.9 billion, and an agreement to acquire **MD Financial Management**, an Ottawa-based wealth management firm that targets Canada's health practitioners, for about $2.6-billion.

Trading at $76.17 at the time of writing with an annual dividend yield of 4.31%, the company's stock is trading close to the 52-week low after it underperformed its peers this year. However, I see this pullback a good opportunity for long-term investors to lock in its juicy yield.

TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), on the other hand, offers a choice to investors who don't want an exposure to risky emerging markets. Following its aggressive growth in the U.S. during the past decade, TD now runs more branches south of the border than it does in Canada.

This wide presence in the U.S. makes TD Bank a great diversification play, as it generates 27% of its net income from the U.S. retail operations. The bank also has a 42% ownership stake in TD

Ameritrade with a fast-expanding credit card portfolio.

When it comes to dividends, TD distributes between 40% and 50% of its income in dividends. After an 11% increase in its payout this year, income investors in TD stock now earn a $0.67-a-share quarterly dividend, which translates into a 3.51% yield on yearly basis.

The bank is likely to grow its dividend payout between 7% and 10% each year going forward — impressive growth that's good enough to protect your investment from the impact of inflation. After a 17% surge during the past 12 months, TD stock is trading close to the 52-week high.

Which one is a better buy?

Although I like both Bank of Nova Scotia and TD for income investors, I find that Scotiabank is offering better value after its 7% slide this year. Picking the most beaten-down bank stock is a good approach to follow in Canada, as history tells that a laggard doesn't take long to catch up with its peers.

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Date
2025/08/19
Date Created
2018/07/20
Author
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