



## Better Buy for Your TFSA: Bank of Nova Scotia (TSX:BNS) or Toronto-Dominion Bank (TSX:TD)?

### Description

The financial services industry isn't necessarily the best to turn to when looking for dividend stocks, but many companies within the industry are worth a mention. Two of the largest Canadian banks, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Toronto-Dominion Bank** ([TSX:TD](#)) ([NYSE:TD](#)) are excellent options to consider when looking for stocks to fill your TFSA with constant dividends. But which of them is the better option? Let's dig in and find out which bank is the better dividend stud.

### Core operations

The two banking giants have different strategies. TD derives most of its earnings —a little less than two-thirds — from its domestic operations. Further, TD is arguably the Canadian bank with the strongest U.S. operations. The company derives approximately 30% of its earnings from the U.S. and owns more branches south of the border than any of its peers.

Scotiabank's earnings are much more dispersed than that of TD. About half of BNS' revenues are generated locally, with most of the remaining coming from Latin American, The Caribbeans, Asia, and the U.S. BNS' exposure to secondary markets is a double-edged sword, presenting both great risks and opportunities.

### Recent financial results

TD recently benefited from favourable tax laws due to its greater exposure to the U.S. market, but the bank was hit by various macro-economic factors. Most notably, the company's Wholesale banking reported a net loss of \$17 million during the first quarter of 2019, down from net earnings of \$278 million compared to the same period of the previous fiscal year.

This loss was mainly due to lower trading revenue (reflecting the adverse conditions that hit global equity markets) and higher expenses. However, these headwinds are expected to subside. With equity markets coming back with a vengeance since the beginning of the year, TD is poised to benefit.

Scotiabank is currently undergoing a series of acquisitions to enhance its operations. Last October, the company announced the completed acquisition of MD Financial Management, a leading provider of financial services to physicians and their families. Scotiabank had completed its takeover of Jarislowsky Fraser Limited, an independent investment firms, earlier in the year. These acquisitions should allow Scotiabank to enter segments in which it has historically not been as successful as TD Bank.

Scotiabank's strong international operations, particularly in Latin America, have helped revenues hit record highs recently, but the company has been shedding some of its operations abroad. Scotiabank sold operations in the Caribbean's to cut costs, slash unprofitable units, and focus on high margin opportunities.

## Valuation and recent dividend history

Scotiabank is currently trading at a 9.78 times future earnings, compared to 10.91 for TD bank. The two companies have comparable return on equity and net margin figures. Over the past 10 years, both banks have generally increased their dividend payouts, but TD's increases have been interrupted by a sharp decrease.

Scotiabank's dividends have been growing consistently, climbing 77% over the past 10 years. TD's revenues have grown by 7% over the past five years, with its net income improving by 11%, slightly beating Scotiabank's 6% revenue and net income growth over the same period. Both companies have conservative payout ratios, with TD's 44.37% ratio beating out Scotiabank's 50.07%.

## The bottom line

While either stock would be a good addition to your TFSA, Toronto-Dominion Bank seems to edge Scotiabank in this battle. TD bank has better domestic operations, a stronger presence in the U.S., and generally records higher earnings and efficiency, and less exposure to risk. Scotiabank currently offers the higher dividend yield, and its recent dividend history is more impressive, but [TD's core operations and earnings potential likely has more upside in the long run.](#)

### CATEGORY

1. Bank Stocks
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