



Banking Showdown: Is TD Bank (TSX:TD) or Scotiabank (TSX:BNS) the Better Buy?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) are two of Canada's most international banks. With 30% of TD's revenue coming from the U.S. and about 40% of Scotiabank's retail banking earnings coming from international markets, these two banks have a wide reach. This is a particularly important fact for bank investors to keep in mind, as Canadian banks are facing pressures on the domestic front, such as slowing mortgage growth, declining credit quality, and short attacks.

In an environment like this, it pays to pick bank stocks that have strong international operations to protect against any losses in their domestic businesses. With that in mind, let's investigate whether TD Bank or Scotiabank wins as Canada's best international bank.

The case for TD Bank

The case for TD Bank starts with growth.

Having grown bottom-line earnings by 9% in its most recent quarter, it was by far the fastest-growing among Canadian banks in that period. TD's growth was driven by its [U.S. retail business](#), which grew at 29%, and its TD Ameritrade investment, whose earnings grew at 93% year over year.

The fact that TD is the largest Canadian bank in the U.S. puts it in an enviable position. The U.S. is not only the world's largest economy, but one of the fastest-growing large economies, with GDP growth around 2.3% in 2017. This means that TD has a lot of room to grow in the States, whose economic growth is currently outpacing Canada's. In addition, TD is only the eighth largest bank in the U.S. right now, giving it plenty of room to capture market share — especially on the West Coast, where it has very little presence.

The case for Scotiabank

If [foreign operations](#) are among the primary criteria for selecting a Canadian bank stock, it would be hard to find one better than Scotiabank. With about 40% of its retail banking income coming from abroad, its exposure to the Canadian economy is much less than some of its peers.

Scotiabank has long been one of the more international Canadian banks, with operations in South America, Asia, and Europe. And until recently, these international operations have served the bank well.

More recently, however, Scotiabank has begun to flounder. Over the past five years, its stock has fallen by about 0.17% — although the total return, including dividends, has averaged around 4% per year.

Part of the reason for Scotiabank's poor performance is sluggish growth. In Q2, the bank grew its earnings by just 3% year over year, with its international operations faring about as well as its Canadian ones. This is in stark contrast to TD Bank, whose non-domestic operations are growing by leaps and bounds. Another possible reason for Scotiabank's sluggish performance is the fact that it has been involved in a number of controversies surrounding involvement in money-laundering and fraud cases.

Foolish takeaway

TD Bank and Scotiabank are similar in that they're both Canadian banks with major operations abroad. However, the similarities end there. Whereas TD Bank's international operations are driving major growth for the company, Scotiabank's are languishing and have been at the heart of some major controversies. Between the two, TD is clearly the better pick.

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