



3 Ways Scotiabank (TSX:BNS) Could Soar Past RBC (TSX:RY)

Description

The banking sector leads the Toronto Stock Exchange. Four out of the Big Five are listed as part of the ten largest Canadian companies based on market capitalization. This fact comes as no surprise since the Canadian banking sector enjoys a reputation of being one of the most stable in the world.

At \$156 billion, the **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) stands at the top of Canada's banking sector. The largest among the Big Five, it seems as though RBC has a permanent foothold in that position. A lot of people might agree that RBC could be the safest bank in Canada. I have reason to believe that there is another Canadian bank that can overtake RBC.

The **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is the third-largest bank in Canada, with a market capitalization of almost \$93.1 billion. Better known as Scotiabank, BNS is a stock I believe can overtake RBC in the long run. I am going to discuss the reasons why I think that so you can take a better look at both stocks and consider the one you prefer.

Diversified global presence

Scotiabank has a diversified global presence. Its operations in the Latin American markets effectively shield BNS from the effects of a recession hitting the domestic market. In comparison, RBC's presence is primarily in the Canadian and U.S. markets.

There is talk of a recession hitting any time soon. If it does strike, the impact is likely to be massive on Canadian banks. Since 40% of Scotiabank's profits come from the Latin American markets, a slowdown in domestic operations can still be offset by the bank's operations in the Latin American countries.

Protected from the U.S.-China trade war

Scotiabank has the upper hand over RBC in another respect. It is no secret that the trade war between the U.S. and China has affected supply chain operations throughout the world – within the U.S., most

of all. A significant portion of RBC's profits come from its presence in the country south of our border.

Scotiabank's reliance on the Pacific Trade Alliance [shields it](#) from the trade war's headwinds. Chile, for instance, has substantial potential for increasing profits for BNS. The economy can see improvement thanks to Chile's vast copper reserves as countries move more toward electric cars. The better the economy is, the more business BNS can conduct there.

Key statistics right now

There is no denying the fact that RBC still has a larger market capitalization than BNS. Let us take a look at some numbers that can indicate the future of both banks.

The expected price to earnings growth rate of RBC stands at 2.62 right now as compared to BNS's 2.25. While both of the banks have a PEG ratio higher than the ideal 1.0, BNS is slightly undervalued compared to RBC. Purely in terms of profitability, BNS has a profit margin of 30.26% upon writing, compared to RBC's 29.61%.

Another significant statistic in favour of BNS is that RBC's quarterly revenue growth is 4.10% at the time of writing, compared to BNS's 11.30%. While RBC might be more stable than BNS, based on the beta for both banks, I feel that a recession might see BNS overtake RBC based on the factors discussed above.

Foolish takeaway

One key thing I'd like to mention is that I feel that BNS *can* overtake RBC and soar due to these reasons. That does not necessarily mean I think that things might stay that way, even if that happens. There is also the chance that the [long-term prospects of RBC](#) beyond a recession might be better than Scotiabank's growth.

I do, however, feel that you should take a better look at both the banks and determine which one you think could be a better buy right now.

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Author

adamothonman

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