Royal Bank of Canada (TSX:RY) Disappoints and Bank of Nova Scotia (TSX:BNS) Impresses

Description

Most of Canada's Big Five banks announced fourth quarter and year-end results this week. It was a decidedly mixed quarter and the narrative of a challenging macro environment continues.

Despite the narrative, 2019 was a decent year for the banks and they continue to reward investors with capital gains and hefty dividends. Of the Big Five, two banks stood out: the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

The most disappointing bank

Somewhat surprisingly, Royal Bank of Canada has been the most disappointing of the Big Five. In the fourth quarter, it missed on both the top and bottom lines.

Earnings of $2.18 missed by $0.06 and revenue of $11.37 billion missed by $280 million, marking the second consecutive quarter in which Royal Bank missed earnings estimates and the first time it has missed twice in a row in more than five years.

On the year, earnings per share jumped by 5%, posting average volume growth of 6% in loans and 10% in deposits in its Canadian Banking segment.

On the flip side, the segment's provision for credit losses jumped by 22% and its PCL on impaired loans ration increased by 4 basis points. In total, PCL on loans jumped from $172 million to $505 million as a result of an uptick in PCL across all segments. It exited the year with a 0.31% PLC ratio on loans, up from 0.23% in 2018.

On the day of earnings, Royal Bank's stock dropped by 2.08% despite a broader stock market rally. Although it was a disappointing quarter, it's important to note that RBC has been one of the best-performing banks in 2019 with gains of 12.10% thus far.

The real issue however, is that RBC has commanded a premium because it has outperformed. In the last two quarters, it has showed weakness, which its shareholders aren't accustomed to. That Royal Bank Chief Executive Officer David McKay warned that "The next couple of years are likely to be challenging," didn't help.

Although it remains one of the best in class, some of its smaller peers may outperform in 2020.

The least disappointing bank

Full disclosure: Choosing a winner among the Big Five was difficult. All of them suffered from macro-economic headwinds and each posted less than impressive quarterly results. That said, I believe **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has been the best bank this past year.

Previously, the company announced its intentions to streamline international operations and it has embarked on an ambitious divestiture program in which it is ridding itself of non-core assets. It's a strategy that was welcomed by the markets, and after years of underperformance, Scotiabank shareholders finally have something to cheer about.

In the fourth quarter, it was one of only two banks to either meet or beat estimates. Adjusted earnings of $1.82 per share and revenue of $7.97 billion were both in line with estimates, representing growth of 2.8% and 7% over the fourth quarter of 2018.

Although it doesn't seem like much, these were among the top growth rates among the Big Five. In fact, it's one of only two to post adjusted EPS growth year over year and revenue growth was more than double the average.

In 2019, it has been the best-performing bank with a yearly return of 13.26% as investors have welcomed the more streamlined approach. Now that the company's repositioning is nearing an end, it looks to be a strong contender to also be one of the top-performing banks of 2020.

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