



Why Bank of Nova Scotia (TSX:BNS) Is the Best Canadian Bank to Buy

Description

It is no secret that many individual Canadian investors love to buy shares of the Big Five Banks. These would be the **Canadian Imperial Bank of Commerce**, **Bank of Montreal**, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), **Royal Bank of Canada**, and **TD Bank**.

While the latter two are often touted as favourites by investors, they may be wrong about which bank has the best upside.

Stock information

The banks are often said to be very stable and have a wide moat, which is what makes them very attractive to investors. It is also said that the banks pay a very nice dividend. This is true, as all five currently yield at least 4.5% and are all Canadian Dividend Aristocrats.

At the top of the pile, the Canadian Imperial Bank of Commerce and Bank of Nova Scotia lead the pack with the greatest yields and longest dividend growth streaks.

While I won't dive into all of the metrics for the five banks, since this article focuses on the Bank of Nova Scotia, I will mention that all of them are currently trading at attractive prices, from a value perspective, because of the COVID-19 pandemic.

That said, the Bank of Nova Scotia currently has a trailing price to earnings ratio of 9.07, where the average for banks is closer to 10, and a price to book ratio of 1.13.

The growth opportunity

This is where the true value in the Bank of Nova Scotia lies. It is well known that the Royal Bank of Canada has been the largest company by market cap in Canada for a while. In fact, it is big news around the country when Royal Bank's market cap is [exceeded by another company](#). TD Bank is often seen as the next biggest.

While this is certainly true regarding their relative presence within North America, it is not the case outside North America. While Royal Bank is by far the largest in Canada and does have some exposure to the United States, the services it offers are very limited.

Meanwhile, TD Bank has had much more exposure to the United States, through its ownership stake in **TD Ameritrade**. However, since the [TD Ameritrade merger with Charles Schwab](#), TD Bank has announced it will be selling its stake in the company.

Conversely, the Bank of Nova Scotia is by far the leading Canadian bank in the Pacific Alliance (Chile, Columbia, Mexico, and Peru). Households in that continent are very underbanked compared to households in Canada and the United States, which leaves Bank of Nova Scotia as the market leader in an emerging economy.

Not only that, between 2008 and 2018, Canada and the United States have had gross domestic product (GDP) per capita compound annual growth rates (CAGR) of 0.6% and 1.2%, respectively, compared to the Pacific Alliance economies which have an average CAGR of 2.0%. So not only is the region underbanked, but its economy is growing at a much faster rate.

The Bank of Nova Scotia is currently anticipating an increase in CAGR within the Pacific Alliance to 3.0% between the years of 2019 and 2024, compared to an increased CAGR in Canada and the United States of 1.7% and 1.8%, respectively.

It should also be noted that the average gross public debt (as a percentage of the GDP) within the Pacific Alliance is 39.1%, which is much lower than that of Canada (90.6%) and the United States (105.8%).

There are many more metrics, such as the rate of middle-class income growth, diversity of economics and exports as a percentage of GDP, population growth, etc., where the Pacific Alliance shows much better prospects than do Canada and the United States than can be mentioned in this article.

However, the aforementioned should paint a good picture of the potential growth that lies ahead for the Bank of Nova Scotia.

Foolish takeaway

While you certainly can't go wrong with any of the Big Five Banks, not all of them provide the same benefits moving forward.

Not only does the Bank of Nova Scotia currently have the highest yielding dividend and the longest dividend growth streak but, most importantly, it is in position to experience the fastest rates of growth within its consumer base when compared to the other banks.

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
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Author

jedlloren

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