



This Is Why Bank of Nova Scotia (TSX:BNS) Is the Leader Among the Big 5 Banks

Description

If you randomly chose any [Canadian investment portfolio](#) to examine, there is a good chance you will find one of the Big Five banks as one of the portfolio's positions. These banks are **Bank of Montreal**, **Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)**, **Canadian Imperial Bank of Commerce**, **Royal Bank of Canada**, and **TD Bank**. Collectively, these banks hold more than \$100 billion in assets and stand atop their peers in the Canadian banking industry.

Investors often choose one of the Big Five as a core position in their portfolio, because of the incredible moat these companies have. In addition to the size and global reach that the Big Five have, they are also less restricted in the type of banking activities they are able to conduct. This gives the group a major advantage over the rest of the banks in the Canadian market. However, which bank is the best to choose for your portfolio?

This can vary from person to person depending on what you are looking for. Generally, it would not be a terrible decision to pick whichever bank you use yourself, or whichever one you have had the best experiences with. Studies have shown that companies with excellent customer and employee culture tend to outperform their peers. However, we can dive a bit deeper into which banks are better in certain situations.

Royal Bank of Canada is the largest bank in terms of assets and market capitalization. It has a non-negligible international presence, serving 36 countries as of 2018. This indicates that the company has more than one option for growth moving forward.

In contrast, TD Bank is more heavily focused on the North American market. With 1,087 branches in Canada and 1,220 in the United States, it could be argued that the company has been successful in expanding across the continent. The company is also the most impressive, in my opinion, with regards to its dividend. From 2000 to 2020, TD has been able to grow its dividend distribution at a compound annual growth rate of 10%.

Why Bank of Nova Scotia is the true leader among its peers

I believe the Bank of Nova Scotia is actually the most impressive Canadian bank. A big reason for this is its international presence. As mentioned previously, the other banks also serve countries other than Canada. However, in those cases, the companies are either too focused in their home markets or their international focus severely lacks in the grand scheme of things. Looking at Royal Bank's 2019 annual report, the company's Caribbean and United States business only accounted for 5% of its total revenue.

In contrast, the Bank of Nova Scotia's Canadian banking segment only accounted for 35% of its earnings [as of Q3 2020](#). This means that the company is much more focused on its international growth. Not only that, but the Bank of Nova Scotia has also chosen to focus on the Pacific Alliance countries (PAC). These include Mexico, Peru, Chile, and Columbia. This is a region of the world that is currently experiencing faster growth than observed in Canada and the United States.

In the PAC, the World Bank Group projects a population growth of 0.9% from 2019 to 2024. This compares to a 0.8% growth in Canada and 0.2% in the G7. This region is also very underbanked, compared to North American countries. Among the PAC, Chile is currently has the greatest banking penetration (74%). Columbia, Peru, and Mexico only report 46%, 43%, and 37% penetration, respectively.

Foolish takeaway

Although the Canadian banks are solid investments for any portfolio. Bank of Nova Scotia remains my top choice among the group. I believe its presence in the PAC is something that investors should take note of. As the region continues to develop, Bank of Nova Scotia should see an excellent amount of growth.

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