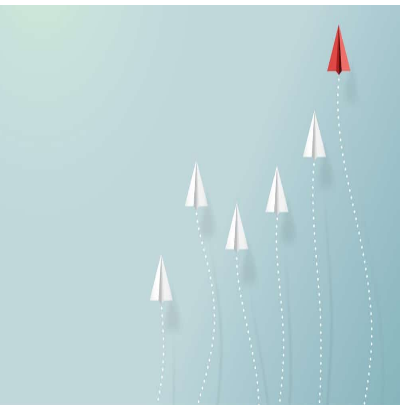

Scotiabank vs. RBC: Why Scotiabank Comes Out Ahead

Description

Assessing the top banks in Canada can seem like a silly idea. I mean, the business models of these various lenders are roughly the same. Borrowing funds at a particular rate and lending them out at a higher rate seems easy enough.

However, there are subtle differences between Canada's big banks that are worth considering. Here are some of the factors investors should consider when looking at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

RBC: A victim of its own success?

Royal Bank is the largest bank in Canada, and the largest company both in terms of revenue and market capitalization. This leading bank is also one of the top global lending institutions, with an excellent global reputation.

However, there are some analysts that are pointing to the growth potential of RBC's smaller peers as more attractive opportunities right now. **Cannacord Genuity** analyst Scott Chen recently commented that RBC could see lower total return than its competitors, leading to a downgrade for this major bank to hold from buy.

That said, the long-term tailwinds emerging in the banking sector remain strong. The outlook for all banks is on the up, with rising interest rates set to boost net interest margins for all banks. That said, it appears RBC's outlook isn't as positive as its peers right now, leading to some stagnation of RBC's stock price this year.

Scotiabank: A top TSX dividend play

In contrast, the forward-looking growth outlook for a smaller Big Six Canadian bank Scotiabank remains robust right now. This bank's growth prospects are boosted by significant exposure to international markets. As Canadian investors look to diversify their portfolios geographically, Scotiabank is often one of the top banks looked to for such exposure. In contrast to its peers, Scotiabank has picked Latin America over the United States as its geography of choice. Right now, that bet is looking like a solid one.

Additionally, one of the key attributes that makes Scotiabank stock attractive is the company's dividend yield and profile. Currently, Scotiabank provides investors with a dividend yield of 4.3%, which is among the highest of its peers. As the company's cash flows continue to grow, expectations are that Scotiabank could continue to hike its yield. Over time, this provides excellent long-term total return potential.

Bottom line

Both RBC and Scotiabank are excellent picks for investor portfolios. For investors looking for bond-like yields and stability, RBC is an excellent choice. Those seeking longer-term total return and higher growth may do better with Scotiabank.

Really, either bank is a great long-term option. However, forced to choose, I think Scotiabank offers a better long-term profile than RBC at these levels.

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chrismacdonald