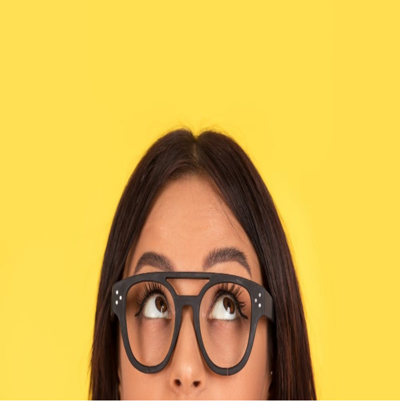


Better Buy: RBC Stock or BNS Shares?

Description

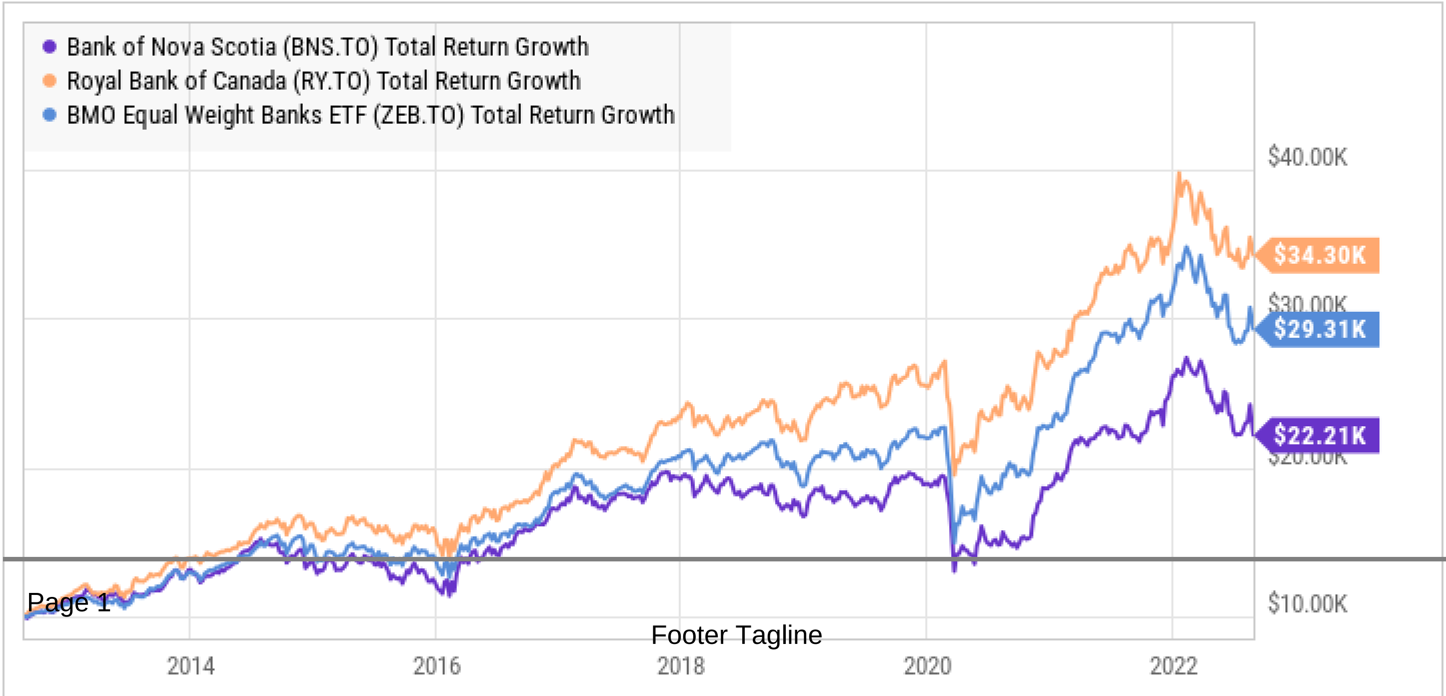
The big Canadian bank stocks have been Canadians' long-time favourites for dividend income. They tend to maintain their payout ratios in the 40-50% range, paying out safe dividends that investors can depend on for reliable passive income. This dividend income rises over time, as the banks are able to post stable earnings growth in the long run.

The big [Canadian bank stocks] have dipped after reporting quarterly earnings. Other than slowed growth, they also anticipate a less-optimistic macroeconomic outlook. Therefore, they're putting aside more reserve in preparation for this.

Royal Bank of Canada (TSX:RY)(NYSE:RY) has dipped less than **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock. Is RBC stock or Scotiabank a better buy today?

RBC stock: A better buy for long-term investors

RBC stock could be a better buy on the dip for long-term investors who don't prioritize on a high current income. The leading bank stock has delivered industry-beating total returns in the last decade, while BNS stock has underperformed.



RY, ZEB, and BNS Total Return Level data by YCharts

In the past 10 years, RBC stock increased its earnings per share (EPS) by 9.5%, while BNS stock's EPS growth rate was 5.3%. This largely explains Royal Bank stock's outperformance, despite that it typically pays a lower dividend yield than BNS.

Year to date, RBC stock saw a 1% decline in diluted EPS. Its trailing 12-month (TTM) payout ratio is 43% of net income available to common stockholders. This is a healthy payout ratio that's within the 40-50% range.

Although it looks like the diversified bank may be set up for more or less flat earnings growth this year, it targets a medium-term EPS growth rate of 7%, which is higher than BNS's anticipated growth. RBC stock is fairly valued. So, it'd be a reasonable buy for long-term returns. It also pays a safe yield of 4.1%. Of course, it'd be an even better buy on further weakness.

BNS shares: A better buy for current income

On reporting its fiscal third-quarter (Q3) results, BNS stock has dipped about 7.4%. The undervalued bank stock now yields 5.5%, which is the largest dividend yield offered by the Big Six Canadian bank stocks.

The bank raised its provision for credit losses for Q3 to $412 million versus Q2's $219 million, as the economy looks gloomier than before. Namely, high inflation and rising interest rates are expected to reduce the spending appetite of consumers and businesses alike.

The bank's Canadian Banking business remains a highlight with a 12% increase in net income to $1.2 billion versus a year ago. The Global Wealth Management business saw a 3% decline in net income to $376 million. The Global Banking and Markets segment saw a 26% decline in net income to $378 million due partly to lower results in Capital Markets from challenging market conditions. The International Banking segment saw a 30% jump in net income on a constant dollar basis to $625 million.

Ultimately, the bank saw a 4% year-over-year increase in its diluted EPS for the quarter. Year to date, its diluted EPS rose 12% to $6.39.

BNS stock's TTM payout ratio is 49% of net income available to common stockholders. So, its dividend remains sustainable. Since BNS offers a higher yield, the undervalued stock may appeal to investors, such as retirees, who need current income. Actually, given BNS stock's meaningful discount, it could deliver higher total returns if investors are able to sell opportunistically at a full valuation when the stock is in favour again.

CATEGORY

1. Bank Stocks
2. Investing

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

2. NYSE:RY (Royal Bank of Canada)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RY (Royal Bank of Canada)

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Date
2025/06/29
Date Created
2022/08/29
Author
kayng