



## Should You Buy Royal Bank Stock or Bank of Nova Scotia Stock Now?

### Description

[Bank stocks](#) are down significantly in 2022. Investors who missed the big rally in financial stocks after the 2020 market crash are wondering if the Canadian banks are now [undervalued](#) and good to buy for a [Tax-Free Savings Account \(TFSA\)](#) or [Registered Retirement Savings Plan \(RRSP\)](#) portfolio.

Let's take a look at **Royal Bank** ([TSX:RY](#)) and **Bank of Nova Scotia** ([TSX:BNS](#)) to see if one deserves to be on your radar.

### Royal Bank

Royal Bank is the largest bank in Canada with a current market capitalization of \$172 billion. The company gets revenue from a broad spectrum of activities in both Canada and international markets.

Personal and commercial banking activities contributed 53% of fiscal third-quarter (Q3) 2022 earnings. Capital markets generated 21% and wealth management added another 18%. Insurance and investor and treasury services rounded things out with contributions of 5% and 3%, respectively. By geography, Royal Bank received 60% of its revenue from its Canadian operations. The United States accounted for 24% and other international business added 16% of the revenue.

Royal Bank generated \$16.1 billion in earnings in fiscal 2021. For the first three quarters of fiscal 2022, the company earned \$11.9 billion, which is slightly below the pace of last year. The solid results show the bank's ability to generate good profits, even during challenging times.

Royal Bank finished fiscal Q3 2022 with a common equity tier-one (CET1) ratio of 13.1%. This is a measure of the bank's ability to ride out challenging economic conditions. Canadian banks are required to have a minimum CET1 ratio of 10.5%, so Royal Bank is flush with excess cash it can use to make acquisitions, buy back stock or boost dividends. The board increased the dividend by 11% late last year and gave investors another 7% increase when Royal Bank reported fiscal Q2 2022 earnings.

The stock is down 9% in 2022. At the time of writing, RY trades below \$125 per share. It was above \$149 in January. At 11.35 times trailing 12-month earnings RY stock is more expensive than its peers,

but you are paying for a premium bank with a high return on equity of 16.7% year to date.

Investors who buy the stock at the current share price can get a 4.1% dividend yield.

## Bank of Nova Scotia

Bank of Nova Scotia is currently Canada's fourth-largest bank based on market capitalization.

The stock is down 27.5% in 2022 and currently trades near \$66 per share compared to a 2022 high of \$95. Investors are worried that the international operations could be hit hard if a global recession arrives in the next 12-18 months and proves to be deeper and longer than expected. Bank of Nova Scotia's foreign business is primarily located in Latin America with a heavy presence in Mexico, Peru, Chile, and Colombia.

Bank of Nova Scotia's fiscal Q3 2022 results suggest the international group continues to rebound from the pandemic hit. The division generated adjusted net income of \$631 million in the quarter compared to \$493 million in the same period last year.

For the first nine months of fiscal 2022, Bank of Nova Scotia reported net income of \$8.1 billion compared to \$7.4 billion last year, so the bank is on track to beat the 2021 results.

Bank of Nova Scotia finished fiscal Q3 with a CET1 ratio of 11.4%, indicating there is ample capital to get through a recession. At the time of writing, the stock trades for 7.8 times trailing 12-month earnings. This appears undervalued given the solid earnings results.

Investors who buy BNS stock at the current price can get a 6.3% dividend yield. Bank of Nova Scotia increased the dividend by 11% near the end of 2021 and bumped it up another 3% this year.

## Is one a better buy today?

Royal Bank and Bank of Nova Scotia should be solid picks at their current prices for a buy-and-hold portfolio. If you only buy one, I would probably make Bank of Nova Scotia the first choice. The stock likely carries more near-term risk, but it appears heavily oversold, and you get paid well to wait for the rebound.

### CATEGORY

1. Bank Stocks
2. Investing

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

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