Should You Buy TD Bank Stock or Bank of Nova Scotia Stock Now?

Description

Bank stocks now look oversold after a dramatic decline during the 2022 market correction. Investors who missed the big rally after the 2020 crash are now wondering which TSX bank stocks are good to buy for a self-directed TFSA or RRSP focused on dividends and total returns. Let's take a look at **TD Bank** (TSX:TD) and **Bank of Nova Scotia** (TSX:BNS) to see if one is a better buy today.

TD Bank

TD is using the war chest of cash it built up during the pandemic to make strategic acquisitions in the United States. The bank already has an extensive branch network that runs from Maine down the east coast to Florida. Once the US$13.4 billion purchase of **First Horizon** is complete, TD will become a top-six bank in the American market. First Horizon will add more than 400 branches in the southeastern part of the country to TD's repertoire.

TD is also buying **Cowen**, an investment bank, for US$1.3 billion. The deal should help TD become more competitive in the capital markets segment. Historically, TD had a smaller capital markets business than some of its peers.

TD stock is down about 12% in 2022. At the time of this writing, shares trade near $87.50 compared to the 2022 high around $109. TD says it will maintain a common equity tier one (CET1) ratio of about 11% after it completes the U.S. acquisitions. This means the bank will still be well capitalized to ride out a potential economic downturn.

TD increased its dividend by 13% for fiscal 2022. Investors should see another generous hike materialize for 2023. The current yield is about 4%.

Long-term investors have done well holding TD stock. A $10,000 investment in shares 25 years ago would be worth about $155,000 today with dividends reinvested.

Bank of Nova Scotia

Bank of Nova Scotia stock is down 27% in 2022. Shares trade for $66 at the time of this writing. This isn't too far off the low for the year and way down from the $95 the bank reached at the high in February.

Investors are concerned that a severe global recession could emerge in 2023 or 2024. This would likely have a negative impact on Bank of Nova Scotia's large international operations located in Mexico, Peru, Chile, and Colombia. So far, however, the international business is holding up well. The division delivered fiscal Q3 2022 earnings of $625 million compared to $486 million in the same period last year.

Beyond near-term volatility, the international group has strong growth potential. The four countries are home to more than 230 million people. Bank penetration is low, so there is ample opportunity for loan and deposit growth as the middle class expands.

Bank of Nova Scotia trades for less than 8.0 times trailing 12-month earnings compared to about 11 times for TD today. BNS stock arguably carries more risk, but the gap looks overdone given the ongoing earnings strength.

The bank increased its dividend by 11% late last year and gave investors another 3% increase when it reported fiscal Q2 2022 results. This suggests that the board is comfortable with the earnings outlook. Investors who buy the stock at the current price can get a juicy 6.2% dividend yield.

A $10,000 investment in Bank of Nova Scotia 25 years ago would be worth about $105,000 today with dividends reinvested.

Is one a better buy?

TFSA investors seeking passive income might want to make Bank of Nova Scotia their first choice today to secure the high yield. RRSP investors with a more conservative investing style and those focused on long-term total returns should probably lean towards TD as the first pick. I would likely split a new investment between the two stocks right now.

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