



## Should You Buy BNS Stock or Royal Bank Now?

### Description

Canadian [bank stocks](#) fell through most of 2022, and all ended the year in negative territory. As we start 2023, investors looking for reliable dividends and a shot at decent capital gains are wondering which [TSX](#) bank stock might be the best to buy. Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#)) and **Royal Bank** ([TSX:RY](#)) to see if one deserves to be on your buy list.

### Bank of Nova Scotia

Bank of Nova Scotia trades for close to \$66 per share compared to the 2022 high of \$95 and is down 27% in the past 12 months. The stock isn't far off the \$63 low, so investors have a chance to buy BNS near the bottom of the latest slide.

The bank's large international business located primarily in Latin America is likely the reason for the oversized drop compared to some of the other Canadian banks. Bank of Nova Scotia has built up a major presence in Mexico, Peru, Chile, and Colombia over the past three decades through strategic acquisitions. The four countries were not randomly chosen. In fact, the group represents the core of the Pacific Alliance trade bloc that is home to more than 230 million people. Banking services are engaged by less than 50% of the people, so there is significant growth potential, as the middle class expands.

Emerging markets, however, carry more risk for investors, and this is one reason BNS stock is out of favour. If a global recession emerges in 2023 or 2024 and proves to be deep and prolonged, investors are concerned the international group could take a big hit.

For the moment, the division continues to rebound from the pandemic slump and generated strong results in fiscal 2022, which were helped by a rebound in oil and copper prices.

Risks exist, but BNS stock now appears oversold trading near 8.25 times trailing 12-month earnings. This would be the kind of multiple expected during a financial crisis. The bank generated fiscal 2022 results that beat the 2021 earnings, and the board raised the dividend last year.

Investors who buy at the current level can get a 6.25% dividend yield.

## Royal Bank

Royal Bank stock is down just 7% in the past 12 months, outperforming BNS and the other large Canadian banks that have dropped at least 10%.

Royal Bank's size and its balanced revenue stream might be the reason investors have kept the share price supported through most of the past year. This doesn't mean Royal Bank is immune to the risks posed by a potential global recession.

The bank's large capital markets operations are feeling the pinch and that is expected to continue in the coming quarters. On the positive side, rising interest rates are boosting net interest margins, and this will help mitigate the negative effects in other segments of the banking market.

Royal Bank built up a massive pile of excess cash during the pandemic. Management took advantage of the situation to announce two strategic acquisitions in 2022 that should help drive future revenue and profit growth. Royal Bank picked up a wealth management business in the U.K. for roughly \$2.4 billion. It is also buying **HSBC Canada**, agreeing to pay \$13.5 billion for the business.

Royal Bank raised the dividend by 7.5% in 2022. At the current share price near \$129, the stock offers a 4.1% dividend yield. The current multiple is 11.7 times trailing 12-month earnings.

## Is one a better bet today?

Royal Bank is probably the safer pick heading into an unknown economic environment, but Bank of Nova Scotia looks more attractive at the the current valuation. Ongoing volatility is expected, but new investors can get a great dividend yield and could see meaningful upside from BNS stock in the next couple of years if the economic downturn proves to be mild and short, as is widely predicted.

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aswalker

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