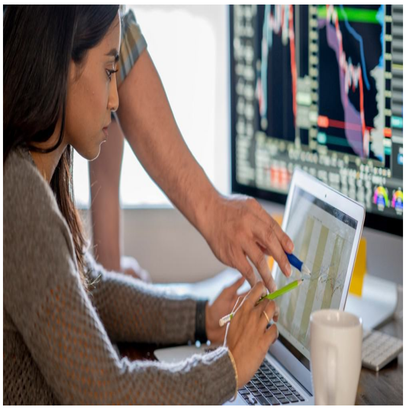

Better Buy: TD Stock or Bank of Nova Scotia?

Description

TD (TSX:TD) and **Bank of Nova Scotia** (TSX:BNS) saw their share prices decline in 2022 as rising interest rates sparked fears of a potential wave of defaults in the mortgage market in 2023 and 2024. Recent strength in the banks has investors wondering if banks are still undervalued and good to buy for their portfolios.

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TD Bank

TD (TSX:TD) is Canada's second-largest bank with a current market capitalization of $165 billion. The stock currently trades near $90 per share compared to more than $100 at this time last year. TD stock actually bottomed out in July last year around $78 and has since been on an upward trend.

TD is using the war chest of cash it built up during the pandemic to make two strategic acquisitions in the United States. The moves extend a pattern over the past 20 years of buying regional banks to build a large American presence. TD's US$13.4 billion purchase of **First Horizon** will bring more than 400 branches into the existing network that currently runs from Maine to Florida. First Horizon primarily operates in the southeastern states, so the deal makes geographic sense. Once the acquisition is complete TD will become a top-six bank in the United States. This should help drive revenue and profit growth, as the American economy expands in the coming decades.

TD is also spending US$1.3 billion to buy **Cowen**, an investment bank. The deal expands TD's capital markets team. This segment has historically been a small focus for TD compared to some of its peers.

TD has a great track record of dividend hikes with a compound annual growth rate above 10% over the past 25 years. At the current price, the stock trades near 9.5 times trailing 12-month earnings and offers a 4.25% dividend yield.

Bank of Nova Scotia

Bank of Nova Scotia trades for close to $71 at the time of writing. The stock was as low as $64 in

October and is still down about 22% from this point last year. The big concern seems to centre around Bank of Nova Scotia’s large international operations that are primarily located in Mexico, Peru, Chile, and Colombia.

The four members of the Pacific Alliance trade bloc offer attractive long term growth potential. Rising middle-class incomes should boost demand for loans and investment products in this combined market of more than 230 million underbanked consumers.

Geopolitical and economic risks, however, are always present in these countries and the threat of a global recession might be the reason investors have shunned Bank of Nova Scotia in the past year.

At the current multiple of 8.9 times trailing 12-month earnings, Bank of Nova Scotia appears cheap, and investors can pick up a 5.8% dividend yield. Bank of Nova Scotia increased the dividend in 43 of the past 45 years.

Is one a better bet?

TD and Bank of Nova Scotia pay attractive dividends that should continue to grow. TD is probably the safer pick of the two stocks, while contrarian investors, who can handle a bit more volatility, and investors seeking passive income might want to make Bank of Nova Scotia the first choice. I would probably split a new investment between the two stocks today.

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