2 Stocks to Watch This Week

Description

In a week of two halves, the **Toronto Stock Exchange 300 Composite Index** (^GSPTSE) ended the week marginally lower after advancing strongly in the first half but slipping back in the second part as weaker commodity prices dragged the mining companies down.

The presence of a number of Real Estate Investment Trusts among the leaders was noticeable with **Canadian Apartment REIT** (+5.3%) and **DREAM Global REIT** (+3.8%) notching up strong gains after reporting decent results. The mining and oil and gas companies occupied the bottom 10 slots for the week.

Market momentum continues to be positive but the results from two major Canadian banks will be scrutinised this week for signs of weakness in consumer and business lending and bad debt experiences and trading activity.

Watch these 2 companies in the week ahead

Royal Bank of Canada (TSX: RY)(NYSE:RY) will start the second quarter bank reporting season for the 2014 financial year on Thursday. The market consensus expectation is a profit of $1.45 per share compared to $1.29 a year ago. The bank derives more than 75% of its net income from its Canadian banking and capital markets operations, with wealth management adding another 10%.

The first quarter provided slightly improved results on the previous year, but was hampered by a C$92 million after-tax loss related to the sale of the Jamaican banking and securities operations. On the other hand, the capital market segment, which includes trading and underwriting activities, performed well. The volatile capital market-related revenues are an important component of Royal Bank's income, but is more unpredictable than traditional bank lending activities.

Royal Bank's share price lagged the performance of the other Canadian banks so far this year. A strong quarterly result can fix this underperformance. The dividend was also increased by 6% in the first quarter and a further change is not expected.

Also reporting on Thursday**, Toronto-Dominion Bank** (TSE: TD)(NYSE: TD) is expected to announce a profit per share of $1.02 for the second quarter compared to $0.95 a year ago. The first-quarter results were solid with a growth of 6% in net income. The U.S. retail segment fared well aided by stronger net interest income, a higher income from TD Ameritrade and a weaker Canadian dollar.

The second quarter should deliver a similar performance with a focus on the continued improvement in the U.S. retail business where the profitability level is still considerably lower than the Canadian retail banking business.

Canadian retail banking is the core of the overall operation, but in an environment where consumers are already highly leveraged, loan growth will remain muted although the recent acquisition of a portfolio of Aeroplan credit cards from CIBC will provide some support. Although not of major importance to the bank, trading income provided a good kicker to income in the first quarter but it always carries the risk of delivering a surprise (either positive or negative).

TD Bank’s share price has lagged the performance of the overall market so far this year, but it is the best performing bank over the past one and five years. The dividend was also increased by 9% in the first quarter and a further change is not expected. Investors should expect another solid performance from this prime Canadian bank.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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