Royal Bank of Canada vs. Toronto-Dominion Bank: Which Is the Better Bet?

Description

Royal Bank of Canada (TSX: RY)(NYSE: RY) and **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) are Canada's two largest companies and many investors opt for their stocks when building their first portfolio. But which is the better option?

Below we take a look at both sides of the argument. First, we make the case for RBC, then for TD. Finally, we deliver a verdict.

The case for RBC

Put simply, RBC is firing on all cylinders. Its Canadian business is arguably stronger than each of its peers – its branch and ATM network is the largest in the country, and the bank has a top two position in every Canadian banking product. This scale makes RBC especially profitable in Canada and Canadians have gradually become more loyal to their bank in recent years, so RBC's position appears relatively safe.

Internationally, RBC's wealth management and capital markets businesses are also performing well. This is really part of the legacy of ex-CEO Gordon Nixon, who decided to focus on these areas at the expense of U.S. banking. So unlike TD, which is struggling in the ferociously competitive U.S. banking industry, RBC is making gains in its businesses while others are retreating.

RBC shares are also cheaper than TD's, trading at 13.4 times earnings compared to over 15 times for TD. As a result, RBC shares also have a slightly higher dividend yield of 3.5%, compared to 3.3% for TD. And a bonus: RBC is also slightly better capitalized. So why would anyone choose TD?

The case for TD

First of all, TD also has a top position in Canadian banking. And TD's market share is arguably more secure, since the bank consistently ranks ahead of its peers for customer satisfaction. Profitability is not a problem in the home market, where return on equity exceeded 40% last year.

TD also has a great track record in risk management, an area where the bank is very well-respected.

Most notable was the decision to exit the subprime market in the United States, before those products blew up.

That kind of track record, plus TD's focus on retail banking, arguably makes the bank much lower risk than RBC. While RBC focuses on capital markets (a business with uncertain risks and little transparency) and wealth management (whose fortunes are tied to the stock market), TD's focus on retail banking should lead to less volatility.

Furthermore, TD's emphasis on the United States gives the bank plenty of room to increase earnings. Right now the environment there is not ideal, but as rates rise, and the economy continues to recover, TD stands to benefit as it grows its presence south of the border.

The verdict

At this point, RBC probably makes for a slightly better option. But both companies are solid options for your portfolio, and it's not a crime to buy either of their shares.

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bensinclair