# 3 Simple Reasons to Prefer Royal Bank of Canada Over Toronto-Dominion Bank

## Description

**Royal Bank of Canada** (TSX: RY)(NYSE: RY) and **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) are not only Canada's two largest banks but are also the country's largest companies. Furthermore, they both have excellent franchises, make great profits, and are well capitalized. No wonder so many Canadian equity portfolios start with one of them.



But which bank is the better one to buy? Below we show you two simple reasons why RBC is the way to go.

**1. TD: The wrong kind of growth**

Ten years ago, TD Bank entered the United States with its purchase of Banknorth. Since then, it has grown substantially in the U.S., and now has more branches there than it does in Canada. Unfortunately, the experience has not gone smoothly. The financial crisis did not help matters, and neither has the slow economic recovery. Fast-forward to today, and low interest rates are holding down profits.

Ideally, TD's profits south of the border will improve as the economy continues to recover. Such a recovery will increase demand for loans, and also will lead to a rise in interest rates. But there's one major problem with that scenario: competition.

The U.S. is far more competitive than Canada and, as a result, returns are lower. In fact, return on equity is stuck below 9% for TD in the U.S. And this is where the bank plans to grow the most.

**2. RBC: The right kind of growth**

Meanwhile, former RB CEO Gordon Nixon realized he had a choice: He could either pursue the U.S. retail business, like TD did, or he could exit it altogether. He chose option B, and at this point that appears have been the right choice.

As a result, RBC is able to better focus on its wealth management and capital markets businesses, which are the two growth engines at the bank. Best of all, these are areas where other banks around the world have been in retreat, allowing RBC to pick up cheap acquisitions and steal market share.

Today, RBC has as much momentum in these businesses as ever, and shareholders are rightfully expecting even more earnings growth.

**3. Price**

It seems that RBC's growth prospects are more promising than TD's, yet TD trades at a slightly higher multiple, at 14.1 times earnings, to RBC's 13.6.

While that doesn't seem like a big difference, there's a strong argument that RBC should be significantly more expensive. Instead, TD's stock is likely buoyed by its sterling reputation — investors may also be holding TD as a way of betting on the U.S.

If you want to make a U.S. bet, then you should go with a large American bank instead. But if you want to own a Canadian bank, you should go with the biggest one: RBC.

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1. Bank Stocks
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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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