It’s Time to Bet on Ontario With Toronto-Dominion Bank

Description

There’s no denying that Canada’s economy as a whole is struggling right now. Just look at the latest report from Statistics Canada, which showed that our jobless rate has increased to 6.8%.

That said, the story isn’t the same in all provinces. Alberta has been hit the worst—according to RBC economics, economic growth will be just 0.6% this year, and the unemployment rate will rise by a full percentage point. Saskatchewan and Newfoundland & Labrador are also facing a bleak near-term future.

Meanwhile, the story is much better in Canada’s largest province, Ontario. To illustrate, RBC expects Ontario to grow by 3.3% this year, and the unemployment rate to drop by 0.9 percentage points. The province is, without a doubt, helped by lower gasoline prices and a weaker Canadian dollar.

So, when looking at the banks, which one is the most weighted towards Ontario? We take a look below.

TD ranks first in Ontario

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the most Ontario-focused of Canada’s big five banks. To illustrate, 57% of TD’s Canadian-based loans come from Ontario. The other four banks average 44%, and none of them account for more than 50%.

Meanwhile, only 18% of TD’s Canadian loans come from the Prairie provinces of Manitoba, Saskatchewan, and Alberta. That’s the lowest ratio of any big five bank.

You may want to stay away from RBC

Let’s take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which is TD’s main competitor. Only 41% of RBC’s Canadian loans come from Ontario (the second-lowest among the big five), while 23% come from the Prairie province (the highest among the big five).

Furthermore, RBC has a big Capital Markets business, one that has a specialty in the energy sector. So, as energy companies dial back, you should expect less revenue for the Capital Markets business. Meanwhile, TD is a much more retail-focused bank. If that wasn’t enough, TD also has a big footprint in the United States, which accounts for more than a quarter of the bank’s loans. By contrast, RBC is more reliant on the Canadian economy.

To be fair, RBC is slightly cheaper, trading at 12.2 times earnings. By comparison, TD trades for 13 times earnings. That being the case, I would have expected the discount to be much wider.

Just keep it simple

TD is a great opportunity to bet on Ontario, and given the company’s track record, it will not waste this opportunity. That should be reason enough to make it your top bank holding.

CATEGORY

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2. NYSE:TD (The Toronto-Dominion Bank)
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