3 Reasons to Buy Toronto-Dominion Bank Instead of Royal Bank of Canada

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have been the staples of many Canadians' portfolios for years. Investors were happy to hold each stock, confident they would generate strong returns and pay consistently rising dividends. But there are big differences between the two companies, and it has become clear that TD is the better option.

On that note, below are three reasons to choose TD over RBC.

1. TD has more tailwinds

TD and RBC have very different priorities. RBC is trying to grow its capital markets and wealth management businesses. TD is more focused on the retail side. And in this environment, retail banking looks like a more promising business.

Let's start with the collapse in energy prices, which has been a drag on stock markets all around the world, especially Canada's. That's bad for wealth management companies, since their revenues are tied to assets under management. Eventually, deal flow for the energy sector should dry up too, as it has in mining. That won't be good for RBC Capital Markets.

Meanwhile, TD's retail arm has some nice tailwinds. Lower energy prices translate into lower gas prices for drivers. Better yet, TD's loan margins will benefit it when U.S. interest rates eventually rise. RBC will benefit too, of course, just not quite as much.

2. TD's loans are in the right places

Canada may be in recession, but the severity is very different depending on the province. The hardest hit are, of course, Alberta, Saskatchewan, and Newfoundland & Labrador, three provinces whose economies depend on energy. On the plus side, Ontario and Quebec are benefiting from cheap gasoline and a low Canadian dollar.

This is good news for TD. Roughly 57% of the bank’s Canadian loans came from Ontario as of the end of last year. And only 18% came from the prairies.

Over at RBC, Ontario accounted for only 41% of loans, and 23% came from the prairies. Furthermore, RBC has $7.5 billion in loans outstanding to energy companies. That number was only $2.7 billion for TD at last count.

3. The banks are priced about the same

Given the different situations these banks are in, you would think TD is far more expensive. But that’s not the case. On a price-to-earnings basis, TD is only about 15% more expensive than RBC. And RBC’s dividend yields just 11% more.

So, in this case you’re better off paying a slight premium for a bank like TD.

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Author
bensinclair