



Which Big Bank Should You Buy: Toronto-Dominion Bank or Royal Bank of Canada?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) are the two largest banks in Canada in terms of total assets, and both of their stocks represent intriguing long-term investment opportunities today.

However, the laws of diversification clearly state that we cannot buy both, so let's take a closer look at each company's financial performance year-to-date in fiscal 2015, their stocks' valuations, and their dividends to determine which is the better buy today.

Toronto-Dominion Bank

TD Bank is Canada's largest bank and its stock has fallen about 7% year-to-date, including a decline of about 0.5% since it released its earnings results on the morning of August 27 for its three- and nine-month periods ending on July 31, 2015. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 5% to \$6.58 billion
2. Adjusted earnings per share increased 5.5% to \$3.47
3. Total revenue increased 3.9% to \$23.38 billion
4. Net interest income increased 5.4% to \$13.84 billion
5. Non-interest income increased 1.7% to \$9.54 billion
6. Total assets increased 17% to \$1.099 trillion
7. Total deposits increased 19.5% to \$685.66 billion
8. Total loans, net of allowance for loan losses, increased 13.5% to \$528.63 billion
9. Total assets under management increased 19.8% to \$345.51 billion
10. Book value per share increased 21% to \$33.25

At today's levels, TD Bank's stock trades at 11.3 times fiscal 2015's estimated earnings per share of \$4.58 and 10.7 times fiscal 2016's estimated earnings per share of \$4.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.7 and the industry

average multiple of 11.6. It also trades at a mere 1.55 times its book value per share of \$33.25, which is inexpensive compared with its market-to-book value of 2.07 at the end of the third quarter of fiscal 2014.

In addition, TD Bank pays a quarterly dividend of \$0.51 per share, or \$2.04 per share annually, giving its stock a 3.95% yield at current levels. Investors should also note that the company has increased its dividend for five consecutive years.

Royal Bank of Canada

RBC is Canada's second-largest bank and its stock has fallen over 10% year-to-date, including a decline of just over 0.5% since it announced its earnings results on the morning of August 26 for its three- and nine-month periods ending on July 31, 2015. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 8.2% to \$7.21 billion
2. Adjusted earnings per diluted share increased 8.5% to \$4.98
3. Total revenue increased 6.1% to \$27.3 billion
4. Net interest income increased 3.9% to \$10.97 billion
5. Non-interest income increased 7.7% to \$16.33 billion
6. Total assets increased 18.7% to \$1.085 trillion
7. Total deposits increased 15.4% to \$694.24 billion
8. Total loans, net of allowance for loan losses, increased 7.5% to \$462.6 billion
9. Total assets under management increased 13.9% to \$508.7 billion
10. Book value per share increased 17.2% to \$38.20

At current levels, RBC's stock trades at 10.8 times fiscal 2015's estimated earnings per share of \$6.63 and 10.4 times fiscal 2016's estimated earnings per share of \$6.93, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.6 and the industry average multiple of 11.6. It also trades at just 1.88 times its book value per share of \$38.20, which is inexpensive compared with its market-to-book value of 2.47 at the end of the third quarter of fiscal 2014.

Additionally, RBC pays a quarterly dividend of \$0.79 per share, or \$3.16 per share annually, which gives its stock a 4.4% yield at today's levels. It is also important to note that the company has increased its dividend for five consecutive years.

Which bank is the better buy today?

After directly comparing TD Bank and RBC, I think RBC represents the better long-term investment opportunity today. It reported stronger earnings results in the first nine months of fiscal 2015, its stock trades at more attractive forward valuations, and it has a higher dividend yield, giving it the easy win in this match-up. Foolish investors should strongly consider initiating positions today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. 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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