Which Has the Better Dividend: Royal Bank of Canada or Toronto-Dominion Bank?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are Canada's two largest companies and two of the country's most popular dividend stocks. But which one is the better payout?

The case for RBC

RBC's dividend currently stands at 81 cents per share, per quarter, good enough for a 4.3% yield. Meanwhile, TD's 55 cent dividend yields just under 4%.

And it's not as if RBC has such a risky payout. The bank has paid a dividend every year since 1870, and the payout has risen very consistently in recent year–by more than 8% annually over the past decade. RBC didn't even have to cut its dividend during the financial crisis. Better yet, RBC pays out just under half of its net income to shareholders

RBC is also a cheaper stock than TD, trading at just over 11 times earnings, while TD trades at close to 13 times. And RBC generates higher returns, mainly because it exited the low-return U.S. retail banking market.

To top it all off, RBC is very well positioned to expand market share, especially in Europe, where banks have been slimming down for years. So shareholders should be able to count on even higher dividends in the years to come.

The case for TD

TD may have a lower dividend and slightly more expensive shares, but there are some good reasons for this.

First of all, TD has much less exposure to the energy sector than RBC. Likewise, TD has less exposure to Canada's energy-producing regions. Meanwhile, the bank has an especially large focus in geographies that benefit from low oil prices, such as Ontario and the U.S. East Coast. This means that TD faces less risk of big loan write-offs.

There are other reasons to like TD's U.S. exposure. The Federal Reserve is planning two interest rate hikes this year, which should improve lending margins. And the American economy is much healthier than Canada's, which bodes well for future loan demand.

TD also has a fantastic track record of controlling risk, which has been the case ever since a disastrous year in 2002. This was a great benefit during the financial crisis, and it's a very important factor to consider in this environment as well. Another factor to consider is that TD is mainly a retail bank, which again makes it a lower-risk business.

To top it all off, TD also pays out just under half of its income to shareholders, so the likelihood of a cut is very remote.

The verdict

There's no reason not to hold both stocks in your dividend portfolio, but if you had to choose one, then TD is probably worth paying up for.

CATEGORY

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bensinclair