Is Toronto-Dominion Bank or TransCanada Corporation a Better Bet Right Now?

Description

The latest rebound in the stock market has investors who missed the rally wondering which stocks still offer solid upside potential.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) to see if one is more attractive right now.

TD

TD is a serious profit machine. The company earned a whopping $2.2 billion in fiscal Q1 2016, which isn't too bad for three months of work in a difficult economic environment.

TD is viewed as the most conservative bet in the bank space because it derives the majority of its revenue from retail operations in Canada and the United States. The other banks rely on retail too, but they also have large capital markets, wealth management, or emerging markets exposure, and those segments tend to be more volatile.

Energy loans and mortgage risks tend to be top of mind for bank investors these days. TD has less than 1% of its total loan book tied to oil and gas companies, and its mortgage portfolio is very capable of handling a downturn in house prices. Uninsured mortgages represent 45% of the outstanding Canadian residential housing loans, and the loan-to-value ratio on that part of the portfolio is 59%. This means the housing market would have to fall substantially before TD takes a material hit.

The company is one of Canada's dividend champions with a 12% annualized dividend-growth rate over the past 20 years. TD recently raised the payout by 8% and offers a safe 3.95% yield.

TransCanada

TransCanada had a tough 2015 as oil prices fell off a cliff and President Obama rejected the Keystone XL pipeline.

As a result, the stock tumbled through the back half of the year and is still well below its 12-month highs, even after a nice rally to start 2016.

Why is it recovering?

Bargain hunters finally realized things are still pretty good at TransCanada.

The company has $13 billion in other projects that will be completed and in service by 2018. Those assets alone are expected to boost revenue and cash flow enough that TransCanada plans to hike its dividend by 8-10% per year through 2020.

The company also just nailed down a deal to purchase Texas-based **Columbia Pipeline Group Inc.** for US$13 billion. The acquisition gives TransCanada an instant foothold in the attractive Marcellus and Utica shale plays and brings an additional portfolio of commercially secured projects.

Keystone XL is probably dead if the Democrats win the next election, but a Republican administration might put the project back on the table. TransCanada's other major pipeline project, Energy East, would carry western Canadian oil to the east coast. A lot of work still has to be done to get all the stakeholders on side, but any positive news on Energy East would probably send the stock much higher.

TransCanada currently offers a yield of 4.5%

Which should you buy?

TD looks like the better bet for cautious investors. The yield is still decent, and there is value in owning a stock that you can simply buy and forget about for decades.

If you think the oil rout is over and you have more of a contrarian style, TransCanada probably offers better upside potential in the medium term, and the higher yield is a nice bonus while you wait for a recovery in the energy sector.

CATEGORY

1. Bank Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. NYSE:TRP (Tc Energy)
3. TSX:TD (The Toronto-Dominion Bank)
4. TSX:TRP (TC Energy Corporation)

Category

1. Bank Stocks
2. Energy Stocks
3. Investing

Date

2025/09/12
Date Created
2016/04/14
Author
aswalker