



Which Is the Smarter Investment: Royal Bank of Canada or Toronto-Dominion Bank?

Description

Banks—the big banks of Canada in particular—are often cited as great investment opportunities, and for good reason. Canadian banks have performed admirably in the years following the Great Recession and offer much better dividend payouts over the larger banks south of the border.

The behemoths in the Canadian banking sector are **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Together, these two banks play a significant role in the economy with trillions of dollars in assets and quarterly revenues measured in billions.

Which of these two is the better investment opportunity at the moment?

Royal Bank of Canada

Royal is the largest bank in the country with a staggering 16 million clients and 78,000 employees in multiple countries. The bank is well diversified. It's made a number of acquisitions in the U.S. and around the world that contribute to its bottom line and provide an avenue for future growth. The acquisition of California-based City National in particular has served as a springboard for increased activity in the U.S. market.

In the most recent quarter Royal reported an adjusted net income of \$2.66 billion—an impressive 7% gain over the same quarter last year. Net income also saw an increase of 4% from the Canadian banking sector, while the capital markets and wealth management sectors also saw gains of 17% and 36% year over year, respectively.

Royal has one of the best dividends of any of the banks, paying a quarterly dividend of \$0.83 per share. At the current stock price of just over \$81, Royal boasts an impressive 4.08% yield.

Why should you invest in Royal?

The bank is well diversified. The City National acquisition has proven to be a lucrative investment for the bank; it's opened the door to significantly more opportunities in the U.S. economy. The

performance of the U.S. retail sector has largely offset the anemic growth seen in parts of Canada as a result of the Albertan economy slowdown.

Toronto-Dominion Bank

TD is the second-largest bank in Canada with over 80,000 employees and 25 million customers. The bank has over \$12 trillion in assets. Like Royal, TD has operations in Canada, the U.S., and internationally.

In terms of expansion south of the border, TD has expanded significantly in the U.S. over the past decade to the point where the bank actually has more branches in the U.S. than in Canada. This included the purchase of Banknorth and the acquisition of Commerce bank.

In the most recent quarter, TD reported adjusted earnings of \$2.4 billion—an increase of 6% over the \$2.2 billion the company reported in the same quarter last year. The Canadian retail sector reported \$1.5 billion for the quarter—a drop from the \$1.6 billion that was reported in the same quarter last year.

Most of this drop can be attributed to insurance claims stemming from the Fort McMurray wildfire this past spring. U.S. operations, on the other hand, posted net income of \$788 million—an increase over the \$674 million posted last year in the same quarter.

TD offers a quarterly dividend in the amount of \$0.55 per share, which gives the stock a yield of 3.81% at the current stock price of \$57.80.

Which is the better investment?

Investors will be satisfied in the purchase of either of these stocks. Both are well funded, highly diversified, and have reported strong results in recent quarters. Both banks also offer a competitive dividend, and both have raised that dividend in the past few years.

The one area where I tend to lean more towards TD is in terms of expansion into other markets. TD's larger exposure to the growing U.S. market and the rapid expansion along the east coast over the past decade have acted as catalysts to propel TD higher.

Royal's acquisition of City National can be seen as an attempt to replicate this performance on the west coast, but Royal may be a few years and another acquisition or two away from meeting that objective.

CATEGORY

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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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