Better Buy: Royal Bank of Canada or Toronto-Dominion Bank?

Description

With a combined market cap of over $260 billion, **Royal Bank of Canada** (TSX:RBC)(NYSE:RBC) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are two of the biggest financial institutions in Canada. And thanks to the rising tide of U.S. Fed monetary tightening, these two stocks have soared in the last quarter of 2016. But which of these two giants makes for a better buy?

Let's take a look at how they did in 2016 to determine the answer.

So-so results for RBC; increasing U.S. footprint via City National

RBC's 2016 earnings were underwhelming to say the least. For the most recent fiscal year, Canada's biggest bank reported diluted EPS of $6.78 — up slightly from $6.73 last year, while ROE and ROA fell 230 and 11 basis points, respectively, to 16.3% and 2.34%.

The reason for the ROE hit was primarily due to a 40.9% increase in provisions for credit losses (PCL) to $1.55 billion from $1.1 billion in 2015 and mediocre earnings across RBC's largest segments. For example, RBC's biggest money maker, personal and commercial banking, had flat earnings growth year over year, while the second-biggest earner, capital markets, took a slight dip due to a higher PCL and sluggish equities trading income.

However, balancing things was a 105% increase in U.S. wealth management revenues to $4.12 billion thanks to RBC's acquisition of City National — the seventh-largest full-service wealth advisory firm in the U.S.

Slightly better earnings for TD; U.S. segment shining bright

TD's ROE for this year came in at a flat 13.3% versus 13.4% in 2015, while diluted EPS increased 11% to $4.67 from $4.21. On a segment basis, however, Canadian retail revenue growth was flat at just .84% year over year, although TD's U.S. retail operations gained 18.9% to $2.96 billion from $2.49 billion in 2015.

As for interest spreads, both TD and RBC saw decreases in net interest margins. TD reported 2.01%

for 2016 (down from four basis points year over year), which was higher than RBC's 1.7% (down one basis point year over year).

Valuations and yields too close to call

On the valuation side of things, these two are trading at pretty much identical P/E ratios. For example, the 2017 consensus estimated P/E for RBC is 12.89, and TD's is 12.88, signaling a premium valuation to their 20-year averages of 11.9 and 11.7 times earnings, respectively (**Barclay's** estimates).

As for their yields, again, there's a hardly a difference between the two. RBC pays out 3.6%, as of this writing, and TD pays out 3.3%.

No clear winner

Based on this cursory analysis, I have to say that there is no clear winner between these two industry leaders.

We can continue to expect domestic interest margins to remain compressed for these two names if the Bank of Canada keeps interest rates unchanged, though I expect that TD will be more affected by domestic monetary policy thanks to its larger exposure to the segment. RBC is more closely linked to oil prices, as is evident by the increase in gross impaired loans of 69.5% year over year; TD has fared significantly better in this space.

As for risks stemming from mortgage exposure, both RBC and TD lead the rest of the sector with nearly identical amounts of residential loans on the books at $210.4 billion and $213.6 billion, respectively. And as far capital ratios go, with common equity tier 1 ratios of 10.4% and 10.8% for RBC and TD, respectively, we can see that their core financial strengths are pretty much equal.

Therefore, with almost identical risks, valuations, and yields, there really is no clear winner here; in other words, buy RBC or TD, or even both — in this case, it doesn't really matter.

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)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/10/01
Date Created
2016/12/30
Author
ajtun