Better Buy: Royal Bank of Canada vs. Toronto-Dominion Bank

Description

Canadian banks are a terrific way to grow your wealth in the long run. They've got huge moats around them, and they're usually quick to recover in the event of an economic downturn. Not to mention that they pay out very generous dividends that grow by a substantial amount on an annual basis.

I believe every Canadian investor should at least have one of the Big Five banks, as they're an essential core to any portfolio. They're the perfect balance between dividend income and capital gains — some of the few stocks you can load up on and sleep well at night, knowing that you're pretty much guaranteed to do well over the course of several years.

The big banks had a huge run upward last year, so they're not steals anymore, but you still can't go wrong with buying a bank at current levels. They're not overvalued by any means; there's still value to be had in some bank stocks. Let's take a look at two of the largest banks in the Big Five, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), to see which one is the better bet today.

Royal Bank of Canada

Royal Bank of Canada is the largest bank of the Big Five. An investment in this bank will give you a great amount of exposure to the domestic markets as well as the United States. The domestic market has been performing well of late, but I think the U.S. segment is going to really shine over the next few years. The U.S. economy is stable and strong, unlike Canada's economy, which is highly sensitive to the price of commodities.

The management team knows the U.S. business will act as a huge tailwind for the long term, and that's why they've put forth U.S.-expansion initiatives, which will continue to grow the company's U.S. segment.

The stock currently pays a 3.66% dividend yield, which is in line with historical averages. But the 13.3 price-to-earnings multiple could be a turn-off to many value investors because it's a bit on the high side when compared to the company's historical average price-to-earnings multiple.

Toronto-Dominion Bank

Toronto-Dominion Bank is a fantastic dividend-growth king that's simply a must-own stock if you're bullish on the U.S. economy. The company actually owns more branches south of the border than it does in Canada, so if you want to double-down on the strengthening U.S. economy, then look no further than Toronto-Dominion Bank.

The bank has a top-notch management team with an excellent risk-management strategy. If the Canadian housing market decided to tank tomorrow, then Toronto-Dominion would barely feel the aftershock when compared to its Big Five peers. When combined with the fact that it's is firing on all cylinders with its U.S. business, I believe the bank is deserving of a substantial premium over its Big Five peers.

The stock currently pays a 3.65% dividend yield, which is pretty much the same as Royal Bank of Canada. The 13.6 price-to-earnings multiple is slightly higher than the company's historical average multiple, so it appears to be fairly valued based on traditional valuation metrics.

And the winner is…

Although the dividend yields are the same, I think Toronto-Dominion Bank will be better positioned to grow its dividend by a larger amount over the next five years. I like it a lot better because it's head and shoulders above its peers when it comes to U.S. expansion, which will be a major driver of the stock over the medium to long term.

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