After Strong Results, Should You Buy Royal Bank of Canada or Toronto-Dominion Bank?

Description

At the end of August, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) released third-quarter earnings that exceeded analyst expectations. Leading up to the reports, both banks had experienced steady declines since early March.

In the case of TD, this was spurred by a report from the CBC that alleged aggressive and unethical sales tactics. RBC faced downward pressure as investor sentiment soured on the Canadian economy at large following a slump in oil and concerns with regards to an overheated housing market.

Going forward, which of the two banking giants should investors own in their portfolios?

RBC released its third-quarter earnings on August 23. The bank reported net income of $2.8 billion, an increase of 5%, excluding an after-tax gain of $235 million from the sale of RBC's home and auto insurance manufacturing business in 2016. Wealth management saw net income up 25%, insurance had an increase of 56%, and investor and treasury services was up 13%. Capital markets declined 4% due to negative market conditions in the third quarter.

RBC was one of the first banks to raise its fixed-term mortgage rates by 20 basis points in expectation of the first Bank of Canada rate hike in July. The bank released a report on September 1 that revealed Canadian households were adding debt at the fastest pace seen since late 2011. Still, the report expects credit growth to slow in anticipation of tightening conditions and lower home sales that will push down mortgage demand.

RBC stock has risen 1.3% in 2017 and 13% year over year as of September 1. Shares received a slight bump after earnings but are still down 6% since March 3. The bank announced it would hike its dividend to $0.91 per share, representing a 3.95% dividend yield.

TD ended bank earnings season with its release of third-quarter results on August 31. Net income was reported at $2.8 billion, an increase of 17% from Q3 2016. Canadian and U.S. net retail each saw an increase of 14%. The earnings were the most impressive in a crop of other Canadian bank results that also beat expectations, underlying just how well TD had performed. The bank announced plans to buy back up to 35 million shares.

TD shares have increased 1.9% in 2017 even after the stock experienced its largest one-day decline since 2009 after the CBC story broke in March. The stock rose 4% after the earnings beat, and it currently boasts a dividend of $0.60 per share, representing a 3.56% dividend yield.

RBC and TD boast the largest market caps on the S&P/TSX index. Banks have reported that investor sentiment has improved since early 2017 as Canadian GDP and job numbers have blown away expectations. However, there are still serious internal concerns over Canadian debt levels and what remains to be determined in NAFTA negotiations.

TD offers investors the diversification of the U.S. market with the largest footprint south of the border of all Canadian banks. It may still be a bargain, even after the post-earnings boost.

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