Which Income Stock Is a Better Buy? Toronto Dominion Bank vs. Royal Bank of Canada

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have come down from their highs earlier this year amid a pullback in the financial services sector and the TSX in general. Both of these stocks can definitely be thought of as income stocks, but let's take a look at where we are to see which one is a better buy right now.

TD Bank stock is currently trading at a dividend yield of 3.86%. The stock has fallen 7.3% since its highs at the beginning of this year, yet the bank continues to show steady, strong growth.

While provisions for credit losses are rising, the bank's efficiency ratio continues to impress, declining 290 basis points in the first quarter of 2018 to 53.2%, as all segments of the bank are showing good cost control.

TD Bank has instituted a yearly dividend increase, and in the latest quarter it increased its dividend by 12% to $0.67 per share.

As a testament to management's confidence in the value of the stock, yesterday after the close, TD Bank announced the approval of the previously announced plan to repurchase 20 million of its common shares, or 1.1% of the company's shares outstanding, in an effort to take advantage of an undervalued stock and a solid cash balance.

In summary, a 25-basis-point increase in interest rates would increase the bank's net interest income by approximately $150 million.

Royal Bank of Canada is also generating strong income for its investors, with a current dividend yield of 3.88%.

Royal Bank's stock has declined 14% from its highs earlier this year, but it's also having a very strong start to the year and had a strong 2017, with a 3% dividend increase to $0.94 per share, and a share buyback of nine million shares a testament to this strength.

The bank's provision for credit losses were flat versus last year in its latest quarter and rose 1% sequentially.

Bottom line

At this time, it is uncertain as to the effect that the recent review of TD Bank's sales practices will have on the brand name and reputation.

Credit risk is elevated for the banks in general, with rising interest rates and Canadians' heavy debt load, but with strong capital ratios, investors needn't be worried about it too much.

Both of the banks offer a good place for investors looking for income stocks, but with Royal Bank stock's big fall this year, and potential issues arising from TD Bank's sales practices, I would be inclined to favour Royal Bank at this time.

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