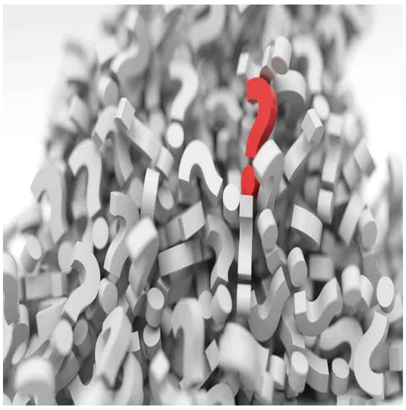

Toronto-Dominion Bank or Royal Bank of Canada: Which Top Dividend Stock Is a TFSA Buy?

Description

Canadian investors are searching for top stocks to add to their TFSA portfolios, and the big banks often come up as favoured picks.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one is more attractive right now.

TD

TD reported a 15% increase in Q1 adjusted net income, supported by strong performances in both the Canadian and U.S. operations. Canadian retail earnings increased 12%, and U.S. retail earnings rose 19% in the quarter compared to the same period last year.

TD is primarily known for its Canadian operations, but the company has invested billions to build a large U.S. presence, running right down the U.S. east coast from Maine to Florida.

In fact, TD operates more branches south of the border than it does in Canada, and the U.S. business contributes better than 30% of TD's net income. This provides investors with a nice hedge against a downturn in the Canadian economy.

TD has a 20-year compound annual dividend-growth rate of more than 10% and recently bumped up the payout by nearly 12%. At the time of writing, the stock provides a yield of 3.7%.

TD's stock price is down slightly from the all-time high it hit in March and currently trades at 13.5 times trailing 12-month (TTM) earnings. This isn't cheap, but TD rarely goes on sale.

Royal Bank

Royal Bank reported a 13% year-over-year gain in adjusted Q1 earnings once you take into consideration the impact of U.S. tax changes and gains from an asset sale.

The company has a balanced revenue stream with contributions coming from personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance.

Royal Bank sold its U.S. retail operations in 2012, which included roughly 400 branches located in the country's southeastern states.

A new management team decided the U.S. was still an attractive place to do business, despite the failed first attempt, and bought California-based City National in late 2015 for US$5 billion. The move into the private and commercial banking segment makes sense and gives Royal a solid platform to expand its presence in that part of the U.S. market.

Royal Bank also has a strong track record of dividend growth, and investors should see the distribution rise in step with earnings increases.

The company recently raised the quarterly payout by $0.03 to $0.94 per share. That's good for an annualized yield of 3.8%.

The stock is down to $98 per share from $108 in January. This puts the TTM price-to-earnings ratio at 13.1.

Is one a better TFSA bet?

Both TD and Royal Bank should continue to be solid buy-and-hold picks for a dividend-focused TFSA. Neither stock is overly cheap right now, but the pullback in Royal Bank is at the point where it is becoming attractive.

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