



Why Toronto-Dominion Bank (TSX:TD) Will Dethrone Royal Bank of Canada (TSX:RY)

Description

Don't look now, but **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is closing in on the market cap of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) for the title of Canada's largest bank.

Royal Bank of Canada is by no means a laggard in the Big Five, however; it's just that TD Bank has the far [superior growth profile](#) such that its trajectory will exceed that of Royal Bank over the next five years and beyond.

Fellow Fool contributor Will Ashworth noted that Royal Bank of Canada is his [least favourite Canadian bank at this point](#). Although Ashworth and I are usually on different ends of the spectrum when it comes to stock views, we're on the same page when it comes to Royal Bank, as it's also my least favourite bank at today's prices.

Royal Bank has the second highest exposure to Canada's bubbly housing market; in spite of this, the stock trades at a hefty 12.9 trailing P/E. And given that Royal Bank's U.S. segment pales in comparison to that of TD Bank, Royal Bank isn't as well positioned to capitalize off a strengthening U.S. economy moving forward.

While Royal Bank is looking to further expand into the U.S. market, Royal Bank derives approximately 66% of its revenues from the domestic market, while TD Bank derives over 60% of revenues from the more attractive U.S. market.

It's going to be tough for Royal Bank to keep its title of Canada's largest bank by market cap, especially if a violent collapse in the Canadian housing market were to occur. While TD Bank still stands to get hit in such a wreck, Royal Bank will take a far bigger hit not only because of its presence in the domestic market, but also because TD Bank has exhibited more conservative lending practices due to management's risk-averse approach that has resulted in a very high-quality stream of earnings relative to many of its peers.

Bottom line

I think it's just a matter of time before TD Bank becomes Canada's largest bank. The talented management team has found a way to grow in a risk-averse way and has not shied away from investing in technological initiatives to get the leg up on the competition.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
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