Should You Buy Toronto-Dominion Bank's (TSX:TD) Stock or Royal Bank of Canada's (TSX:RY) Stock Before Earnings?

Description

Bank earnings season is just around the corner. With that in mind, let's take a look at Canada's two largest banks: **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

With a market cap of $136 billion, RBC is Canada's biggest bank. Nipping on its heels and closing the gap is Toronto-Dominion, which has a market cap of $130 billion. Likewise, it has the largest exposure to the market south of the border, as 55% of its revenue originate from the United States.

Which is the better buy before earnings?

Top bank for growth

It's expected to be a good earnings season for Canada's Big Five banks. On average, earnings should jump by approximately 10% over the fourth quarter of 2017.

Near the top of the list — Toronto Dominion. The bank is expected to post 18.4% earnings growth over last year. Looking further out, analysts expect the company to post 16.5% growth in fiscal 2019.

On the flip side, RBC is at the bottom looking up. The bank trails TD by a significant margin with an expected growth rate of 4.7% in the fourth quarter. Although growth of 12.4% is expected in 2019, it still trails the competition.

Winner: TD Bank is the top bank for growth. In fact, should both companies perform in line with expectations, we may be looking a new market cap leader by this time next year.

Canada's top banking stock for dividends

We can't talk Canada's banks without taking a look at the dividends. They are the safest and most reliable dividend payers in North America with streaks dating back to the 1800s.

RBC and TD Bank are both Canadian Dividend Aristocrats with a seven-year streak of raising dividends. As of writing, Royal Bank's 4.11% yield eclipses that of the 3.74% offered by its competitor. On the flip side, TD has a lower payout ratio (45% vs. 49%) and a higher five-year average dividend-growth rate (10.2% vs 8.8%).

Winner: The results are a wash. One offers a higher yield, while the other offers a higher growth rate. Regardless, both make excellent income investments.

Best-valued bank

Given the most recent downturn, all Canadian banks are now trading below historical averages. As such, each in their own way make attractive investment opportunities. Of the two, the green machine is trading at a greater discount (13.3%) to historical earnings than RBC (10.5%). Likewise, given its higher than expected growth rates, it has a P/E to growth (PEG) of 0.91 as compared to Royal's PEG of 1.34. A PEG under one signifies under-valuation, as its share price is not keeping up with expected growth rates.

Winner: Once again, it's a very close race, but TD Bank offers the best value.

What bank stock should you buy before earnings?

It was a close call, but TD Bank has edged Royal Bank as the top stock to buy before earnings. The company's performance has led all its big banking peers over the past number of years. Over the past five years, its stock has returned 46% for a 9.2% average annual return. In comparison, RBC was second with a 6.4% annual growth rate.

In the end, TD has the best growth rates and historical performance, and it's better valued. It's Canada's top banking stock.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/25
Date Created
2018/11/25
Author
mlitalien