



Stick With the Most Profitable Companies and Be Worry Free

Description

The Big Two Canadian Banks, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), are the most profitable companies in Canada. They make money in good, normal, and bad economic times. So, there's no need to worry about any macro factors that will take them out.

That's why you don't need to worry about the market correction we're experiencing if you stick with Royal Bank or TD Bank. It's true that the correction has reached out its ugly hand and is dragging down the stocks of [Royal Bank and TD Bank](#), too.

The Canadian market has corrected about 12.6% in the last 12 months, while the stocks of Royal Bank and TD Bank are down 11.6% and 9.2%, respectively.



However, as I said earlier, you should be worry free if you have them in your portfolio — unless you're a short-term trader. And here at the Fool, we focus on the long-term prospects of quality businesses and how they treat shareholders. Both banks are fine long-term investments at current levels and at lower prices.

How profitable are these big banks?

Royal Bank's net income was \$12.4 billion in fiscal 2018. Its recent net margin was 21.6%. Its adjusted earnings per share (EPS) increased by about 8.4% per year on average over the past three years, while its diluted GAAP EPS increased by roughly 7.1% per year on average over the same period.

During the last recession, its diluted GAAP EPS fell about 39% over two years' time before they started to recover. It took the banking leader two years to recover to EPS levels that were the same as pre-recession levels.

TD Bank earned net income of \$11.26 billion in fiscal 2018. Its recent net margin was 21.5%. Its adjusted EPS increased by about 12% per year on average over the past three years, while its diluted GAAP EPS increased by roughly 12.7% per year on average over the same period.

During the last recession, its diluted GAAP EPS fell about 37% over two years' time before they started to recover. It took the quality bank less than two years to recover to earnings per share level that were the same as pre-recession levels.

Dividends help you hold on to stocks in market corrections

Other than being highly profitable, Royal Bank and TD Bank offer growing dividends. Over the past 15 years, Royal Bank increased its dividend per share at a compound annual growth rate (CAGR) of 10.7%.

If you'd bought the stock 15 years ago, you'd be sitting on a yield on cost (YOC) of about 13.8%. What about its annualized returns? They were about 10% despite the recent correction. Thanks to the correction, Royal Bank now offers an appetizing yield of 4.3%.

Over the past 15 years, TD Bank increased its dividend per share at a CAGR of 10%. If you'd bought the stock 15 years ago, you'd be sitting on a YOC of more than 16%. Its annualized returns were about 12% despite the recent correction, which has pushed its yield to 4%. This is a decent starting yield for buying TD.

Their payout ratios are less than 50% with enough room to continue increasing their dividends. The nice yields of the stocks help shareholders hold the stocks in any market corrections. The dividend income can be used to pay the bills or be reinvested into quality companies in downturns.

Investor takeaway

With the valuations of the two most profitable companies having come off in this market correction, it's now in long-term investors' favour in terms of risk-adjusted returns. Can the stocks go lower? They sure can in the near term. So, it'd be a more prudent strategy to average into a position over time.

Stay Foolish! Buy and stick with [quality dividend-growth stocks](#), such as Royal Bank and TD, at discounted valuations and watch the growing income roll in.

CATEGORY

1. Bank Stocks

2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date

2025/09/30

Date Created

2018/12/27

Author

kayng

default watermark

default watermark