Is Royal Bank of Canada (TSX:RY) Still the King of Canadian Banks?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) or RBC, has reigned as king of the Canadian banking scene for quite some time. But with U.S.-weighted retail banking heavyweight in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) breathing down RBC's neck in terms of market cap (just over $10 billion in market cap now separates the two behemoths), does RBC still have what it takes to retain the throne? Or is it merely warming it up for TD Bank?

In a prior piece, I praised RBC for its efforts to better cater to millennial audiences. Now, it was more than just Jay Baruchel and marketing campaigns that had me impressed by developments over at RBC. The bank had identified its target market, management knew where the puck was headed next (banks to become more tech-savvy), and they've been skating toward open ice, where the chances of scoring are seemingly better, rather than firing pucks relentlessly from low-scoring-chance areas.

Now, hockey comparisons aside, RBC continues to look solid, especially after clocking in a decent second quarter at a time when many were expecting major shortcomings thanks in part to Steve Eisman, who previously noted that he was betting against RBC, one of three "ill-prepared" Canadian banks that he identified.

While the credit cycle preparedness of Canada's top financial institutions is still up for debate, I shot down the "short RBC" thesis in a prior piece, noting that RBC wasn't as hideous or "ill-prepared" for a credit cycle as many Eisman would lead investors to believe.

More recently, RBC raised the curtain on its second-quarter results, which, while not stellar, weren't bad and a win in its own right given the macro pressures. The bank clocked in $2.23 in adjusted EPS for the quarter, thereby beating the Street by two cents while maintaining a +7% in EPS growth on the guidance front. While PCLs popped (55% on a year-over-year basis) with expenses rising 8% year over year, two common trends for the banks this quarter, the numbers weren't nearly as bad as they could have been had RBC not been on solid footing.

While RBC escaped Q2 relatively unscathed, I believe it will be just a matter of time before TD Bank surpasses it on the market cap front. TD Bank recently knocked one out of the ballpark, and given the trailing P/E multiples, and dividend yields are nearly identical at the time of writing, TD Bank is the better-equipped bank with the most room to run over the next year.

Royal Bank is still a king in its own regard, but TD, with its applause-worthy U.S. business, will take the throne at some point over the next few years. TD Bank had second-quarter results that will likely cause its peers' results to pale in comparison.

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Author
joefrenette