TD Bank (TSX:TD) vs. RBC (TSX:RY): Which Is the Better Banking Stock?

Description

It's a tough time for Canadian banks.

Between a sluggish housing market, deteriorating credit quality and short attacks from major hedge funds, Canada's financial institutions are taking a lot of heat. After years of steady, if not impressive growth, banks like **The Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have begun to show signs of weakness, namely increasing provisions for credit losses and slower earnings growth. However, the two aforementioned banks delivered surprise earnings beats in Q2, with both of them posting better than expected results.

If you think the bad press against Canadian banks is overblown, you could always buy a finance-oriented ETF to get a piece of the whole sector. If you're a more enterprising investor, however, you may want to bet big on the best of the bunch.

Many investors consider TD Bank and RBC to be the best Canadian banking stocks. The following are three things to consider when deciding which of them you should invest in.

Revenue and earnings growth

In terms of growth, RBC and TD Bank are pretty close, historically speaking. However, in the most recent quarter, TD bank won out, increasing revenue by 2.3% and earnings by 9% year over year. By contrast, RBC posted 14% revenue growth and 6% earnings growth–that gives RBC the win on revenue, but diluted EPS is ultimately more important, as it's a measure of profit rather than sales alone. Both TD and RBC's bottom lines were affected by provisions for credit losses (PCL), which increased significantly in their most recent quarters.

Valuation

RBC stock is fairly cheap at the moment, with a price-to-book ratio of about two and a forward P/E ratio of 11. However, TD Bank is just slightly cheaper, with a price-to-book ratio of 1.73 and a forward P/E ratio of 10.2. Going with trailing P/E ratios, TD is also slightly cheaper, at 12.15 to RBC's 12.36.

Geographic scope

The biggest differences between TD and RBC come in the form of their geographic scope. Whereas RBC is focused almost entirely on the Canadian market (including services for Canadians in the U.S.), TD has a major focus on U.S. retail banking oriented toward American customers.

Foreign countries are huge potential growth areas for Canadian banks, which are heavily regulated and lack room to grow at home. TD's international expansion efforts have mainly focused on the less regulated U.S. market, where it's growing at 29% year over year. The company also has a major investment in **TD Ameritrade**, a U.S.-based brokerage that's growing earnings at 93% year over year.

RBC's U.S. operations, by contrast, are limited to offering cross-border banking services to Canadians travelling in the states, a relatively small niche and one in which RBC has limited room to grow.

It comes as no surprise, then, that TD achieved higher earnings growth than RBC in its most recent quarter. On the flip side, RBC did have higher revenue growth, thanks mainly to a huge increase in interest and dividend income. However, between the two of them, TD seems like a better growth bet.

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
2025/09/10
Date Created
2019/06/11

Author
andrewbutton