



The Best Banking Stock You Can Buy for the Next 20 Years

Description

Comparing **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) stock's performance over the last 15 years or so with the other Big Six Canadian banks gives an idea of TD Bank's standing.

In the period, an initial investment of \$10,000 in TD stock has transformed into \$43,810 for total returns of 10.3% per year. Investors would have received their initial investment in its entirety from the dividends alone (specifically, \$10,453 of dividends would have been received).

Coincidentally, the bank also increased its dividend per share by 10.3% per year in that period, which is very strong growth despite the setbacks from the global financial crisis of 2007/2008.

How did TD's peers fare? These are the 15-year results for TD Bank and its peers: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Bank of Nova Scotia**, **Bank of Montreal**, **Canadian Imperial Bank of Commerce**, and **National Bank of Canada**.

Ticker	Total returns	Dividend growth	Dividends received
RY	10.9%	9.5%	\$12,410
TD	10.3%	10.3%	\$10,453
BNS	7.8%	6.4%	\$10,004
BMO	6.8%	6.6%	\$8,184
CM	6.2%	6.4%	\$8,820
NA	9.5%	9.4%	\$10,947

Historical returns are indicative of future returns. From the above results, it looks like there could be an intense competition between Royal Bank and TD Bank for the best banking stock going into the future.

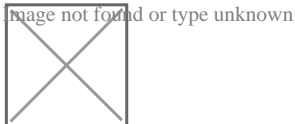
Royal Bank

Royal Bank has a diversified business, generating roughly 48% of earnings from its Personal and

Commercial Banking segment, 22% from its Capital Markets segment, 18% from its Wealth Management segment, 6% from its Insurance segment, and 6% from its Investor and Treasury Services segment.

Over the medium term, Royal Bank targets earnings-per-share (EPS) growth of 7% or higher per year, a return on equity (ROE) of 16% or higher, and a payout ratio of 40-50%.

In the first half of fiscal 2019, RY reported diluted EPS of \$4.35 per share, which was 6.9% higher year over year. This resulted in a payout ratio of about 46%. Additionally, its ROE was solidly above 16% for both quarters.



TD Bank

[TD Bank](#) focuses on North American retail — lower risk businesses that allow the quality bank to generate stable and consistent earnings. About 92% of its earnings come from its retail segment (58% from its Canada Retail segment and 34% from its U.S. Retail segment).

Over the medium term, TD Bank aims for EPS growth of 7-10% per year and a payout ratio of 40-50%.

In the first half of fiscal 2019, TD reported diluted EPS of \$3.32 per share, 11.8% higher year over year. This resulted in a payout ratio of about 42%. Additionally, its trailing 12-month ROE is about 15%.

Foolish takeaway

Historically, the stocks of RY and TD have outperformed their Big Bank peers over the long haul. Currently, TD stock is a slightly better pick due to its lower valuation and payout ratio which should lead to higher total returns and [dividend](#) growth.

Since the two businesses are focused in different areas, it'd be a good idea to buy Royal Bank stock should the stock retreat to the low \$90s area over the next 12 months. However, right now, TD is the best banking stock you can buy and hold for the next 20 years and beyond.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

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)

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