Battle of the Bargain Banks: Royal Bank (TSX:RY) or Toronto-Dominion (TSX:TD) — Which Should You Buy?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have been in a tight race for years to take the top spot as Canada's largest bank. On the surface, the two are incredibly alike. Each has a market cap in the $140 billion range, has recently expanded well in the United States, and has entered the wealth and commercial management market. All of this spells some high gains over the next few years.

But is one better than the other? Or, at the very least, does one offer a better opportunity?

After all, another point the stocks have in common is that each is undervalued — Royal Bank is undervalued by 8% and TD by 5% as of writing. But before you make your choice based on that point alone, let's look into what makes each stock so great.

Growth

Since the last recession, both Royal Bank and TD bounced back within a year to provide investors with the same funds they had going in. Since then, both have been on a steady increase upwards in the last decade, with Royal Bank growing 237% since then, and TD growing 312% as of writing.

For TD, much of that growth has come from its recent expansion into the United States, where the bank gets 35% of its revenue to date. The bank is now one of the top 10 banks in the U.S., with even more room to grow over the next few years. At home, it's growing too, with diluted earnings per share (EPS) up 9% in the most recent quarter.

Royal Bank has also seen growth from its expansion through City National; however, rather than open banks, it has focused in on the wealth-management side, which has proven highly lucrative. Over the last several years, the bank has experienced tremendous growth, as it has expanded both in the U.S. and globally, and this should continue for some time. Growth might taper off and earnings with it as the markets turn down, but again the stock should bounce back quickly.

Dividends

If you're looking to buy these stocks over the long haul, then dividends have to be considered. TD has one of the highest yields among the Big Six banks at 3.85% as of writing, which equates to $2.96 per share per year, handed out each quarter. That dividend has increased by about 60% in the last five years alone. Management expects dividend growth of 7-10% per year for the next few years.

Royal Bank has as yield of 3.90%, which comes to $4.08 per share per year, given out quarterly. Given its increased share price, it's really about the same. However, where things differ is that the stock has increased its dividend yield by 44% in the last five years. So, that could be something to look into further. Management also expects dividend growth of 7-10% per year for the next few years.

Earnings

Finally, let's look at where things really matter. Stock and dividend growth can only come from earnings, and both banks have them. TD is very profitable, reporting adjusted net income of $12 billion for last year, which comes to $1 billion of profit every month, even on the heels of a potential recession.

Royal Bank also put out strong numbers while peers missed earnings expectations, with the bank announcing a 6% increase in income, and a 14% increase in revenue.

Foolish takeaway

Both stocks are great options for investors, especially right now, as they continue to be unnecessarily undervalued. And honestly, while I might choose one over the other, both are so neck and neck, it's no wonder each is tied for first place among Canadian banks.

But if I'm going with just one today, it has to be TD. This is only due to the future potential it has through its U.S. expansion. Whereas Royal Bank has seen a number of years of expansion already, TD is just getting started in both the setting-up-shop aspect and the wealth-management aspect. Investors today could see some serious earnings over the next few years that could bring its share price on par with Royal Bank very shortly.

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