Which Stock Should You Buy: TD Bank (TSX:TD) or RBC (TSX:RY)?

Description

There is no such thing as a risk-free stock, but there are ways to choose healthy stocks that are worth the risk. Banking stocks are a solid choice for good returns, given the risk profiles.

A select few banks have control of the majority of banking operations in Canada. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is the largest Canadian bank with a market capitalization value of $107.8 billion at the time of writing. Meanwhile, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) comes in a close second with $99.94 billion. This brings us to an essential question that investors often ask themselves: Which stock should they invest in?

You might feel more inclined to invest in RBC since it is the more prominent bank. However, you need to take into account all the facts before making the decision.

The matter of customer base

The real difference between the two Canadian giants lies in the companies' respective customer base. RBC primarily focuses on the Canadian banking market. Although that includes providing services for Canadians living in the U.S., RBC's presence in the neighboring country does not compare to the interest that TD has.

TD has a significant presence within the Canadian market, but it also focuses on U.S. retail banking and deals with American customers.

In the banking industry, foreign countries present a fantastic opportunity for Canadian banks in terms of growth. TD has an advantage with its presence in the U.S. retail banking market because it is not as heavily regulated as the Canadian market.

RBC might still hold its place as the largest bank in Canada, but TD has more room for growth due to its expansion in another country. TD has been growing 29% in the U.S. market year over year.

The stock valuation

RBC stock has a price-to-book ratio at 1.88 and a forward P/E ratio at 11.53 at the time of writing. TD Bank has a price-to-book ratio of 1.668 and a forward P/E ratio higher than RBC's at 11.70. The valuations are very similar.

Who is the top performer?

Between RBC and TD, TD was the leader during the first half of this year. The stock is valued at a reasonable $72.52, which is higher than its starting value in 2019, which was $68.25. The value of RBC's shares stands at $99.74 at the time of writing, which is higher than its starting value of $93.62 in 2019.

Both stocks performed decently well this year so far, but are still underperforming the TSX, which is sitting at a year-to-date return of 13.8%.

Conclusion

Between the slow housing market and the deteriorating credit quality in Canada, this is making its financial institutions come under a bit of pressure.

Considering that TD is opting to expand its market while RBC continues to focus solely on the market at home, I would personally go for TD. It is possible TD could become the largest bank in Canada in the coming years. There is only so much that RBC's value can increase at home, but TD is a decent buy-and-hold stock at the moment.

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