Should You Buy Toronto Dominion Bank (TSX:TD) or Suncor Energy (TSX:SU) Stock?

Description

Canadian investors are constantly searching for top stocks to add to their TFSA or RRSP portfolios.

Let's take a look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) and **Suncor Energy** (TSX:SU) to see if on deserves to be on your buy list right now.

TD

TD generated net income of $3.38 billion, or $1.79 per share in fiscal Q3 2019 on revenue of $10.5 billion. Adjusted earnings on a per-share basis rose 8% compared to the same period last year.

The Canadian retail banking operations, which include personal and commercial banking, as well as wealth management, saw net income rise 2% on a year over year basis. TD's American operations, which have grown significantly in the past 15 years, generated a 9% jump in adjusted net income.

What are the risks?

TD's Canadian residential mortgage portfolio is large at $288 billion, so any major crash in house prices would be negative for the bank. However, insured loans make up roughly a third of the mortgages and the loan-to-value ratio on the uninsured portion is 54%.

As a result, the housing market would have to get pretty bad before TD and its bank peers take a material hit.

The trend to lower interest rates and recent declines in bond yields have reduced the chances of a wave of defaults. Employment remains strong in Canada, so there shouldn't be much risk in the medium term on the housing side of the business.

TD has a strong track record of dividend growth and share buybacks. The current distribution provides a yield of 3.9%.

The stock trades at $75 per share at writing, near the top of its $65-78 range over the past year. At 12 times trailing earnings, TD isn't cheap, but the shares appear reasonably priced given the expected earnings growth of 7-10% per year.

Suncor

Suncor is Canada's largest energy company with a market capitalization of $61.5 billion.

The stock is down from $55 in the summer of 2018 to $40 per share at writing — a significant pullback indicating the impact volatility in the oil sector can have on the stock and the industry as a whole.

Despite the ongoing challenges in the Canadian oil patch, Suncor is performing well and investors continue to benefit from strong cash flow. Funds from operations in Q2 2019 came in at a record $3 billion and operating earnings rose 10% to $0.80 per share.

Suncor repurchased $552 million in stock in the quarter as part of its overall share buyback program and paid out $658 million in dividends. The board raised the dividend by nearly 17% for 2019 and has increased the payout for 17 straight years.

At the current stock price investors can pick up a 4.25% yield.

Suncor's integrated business structure enables it to generate solid cash flow when oil prices slump, as the refining and retail operations can help offset lower margins in the upstream assets.

When times are tough, Suncor often takes advantage of its strong balance sheet to buy additional production facilities and resources.

Risks?

The long-term viability of the oil sector is constantly debated by pundits with a focus on the global trend toward green energy. It's certainly worth considering when evaluating Suncor as an investment.

In short, you have to be an oil bull to buy energy stocks.

Is one a better bet?

TD isn't on sale right now, but the stock is a proven performer for buy-and-hold investors and offers an attractive dividend. If you are searching for a reliable anchor for your fund, TD would probably be the better bet.

Contrarian investors who are positive on the long-term oil market might want to go with Suncor today. The stock appears oversold and any surge in oil prices could send the share price soaring back toward the 2018 highs. In the meantime, you get paid well to wait for the recovery.

I would probably split a new investment between the two stocks.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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