



TFSA Users: Royal Bank (TSX:RY) vs. TD Bank (TSX:TD) in 2020

Description

In late November I'd [ranked the Big 5 banks](#) before the latest trove of earnings were released. The two banks I will look at today, which are the two largest in Canada by market cap, were ranked at the bottom of my list. Both have been high performers in 2019, but I just didn't dig their value ahead of their Q4 and full-year earnings releases. How is my snapshot looking after earnings season? More importantly, which of these behemoths is a better bet in 2020?

Royal Bank

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is the largest bank in Canada by market cap. Shares have dropped 2.9% over the past month as of early afternoon trading on December 6. It released its fourth-quarter and full-year results for 2019 on December 4.

The bank achieved record earnings of \$12.9 billion for the full year. This was driven by strong earnings growth in personal and commercial banking and wealth management. Royal Bank has emerged as a leader in the mortgage space over the past two years. Canada's housing market as a whole has rebounded nicely in 2019, and sales and prices are expected to increase into the early part of the next decade. Royal Bank posted average loan growth of 6% in residential mortgages this past year. This bodes well ahead of 2020.

More impressive was its wealth management performance. Royal Bank reported 13% growth in this segment largely due to higher average assets for fee-based clients. This reflected positive market movement and net sales that benefited Royal Bank's size advantage.

Shares of Royal Bank have dropped 3.6% over the past week. Though Royal Bank posted record earnings for the full-year, its profit edged down in the fourth quarter compared to Q4 2018. Its insurance business and capital markets dragged down earnings in the final quarter. Royal Bank stock now possesses a price-to-earnings ratio of 11.9 and a price-to-book value of 1.9. This still puts it on the pricier end with regards to value compared to its Big 5 peers.

Toronto-Dominion Bank

In late August I'd discussed why I was [avoiding](#) **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) after its third-quarter 2019 earnings release. Shares of TD have dropped 3.7% over the past month. The second-largest bank in Canada released its fourth-quarter and full-year results for 2019 on December 5.

TD has been reliable over the past two years on the back of its U.S. banking strength. The U.S. Tax Cuts and Jobs Act has been a big positive for bank profits south of the border, but the benefits of this cut have waned in this year. U.S. Retail banking profit rose 7% year-over-year to \$1.19 billion in Q4 2019. It increased 5% on an adjusted basis.

Though it had another strong quarter in the U.S., TD still disappointed in the fourth quarter. TD's quarterly profit fell 3.5% year over year to \$2.86 billion. Canadian retail banking only climbed \$4 million from the prior year as increased loan and deposit volumes contributed to 5% revenue growth. Its capital markets segment also took a hit largely due to changes in its trading capabilities that resulted in derivative valuation charges in the quarter.

Shares of TD have plunged 3.5% over the past week. It boasts a comparable P/E ratio of 11.5 and a P/B value of 1.6. I'm throwing in with TD in early December due to its continued U.S. strength and marginal advantage in value. The stock also offers a quarterly dividend of \$0.74 per share which represents a 4% yield.

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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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