



Which Is the Better Bank Stock in 2020: Toronto-Dominion Bank (TSX:TD) or Royal Bank of Canada (TSX:RY)?

Description

Both **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) stocks yield 4%. Which is the better bank stock to buy going into 2020?

Let's start with some fun facts.

Royal Bank fun facts

In 2019, Royal Bank was named Canada's most valuable brand by Brand Finance. The bank is 150 years old but is still younger than TD Bank by 14 years.

Across 36 countries, Royal Bank has 17 million customers — 42% of whom are active digital customers. Despite being a larger bank, Royal Bank has over 85,000 employees, just like TD Bank.

About half of Royal Bank's business mix is in non-traditional banking activities, including its Capital Markets and Wealth Management segments, which actually add an interesting diversification to TD's retail-focused business should investors choose to hold both leading banks in their portfolios.

TD Bank fun facts

In 2019, TD Bank was named the most innovative digital bank in North America by Global Finance. For example, it introduced TD Wheels, which provide Canadian customers with new ways to buy and finance cars, and TD GoalAssist, which offer industry-leading insights and online advice for Canadian Direct Investing customers.

TD is also the fifth-largest bank on the continent by the number of branches. It has more than 26 million customers around the world, half of whom are active digital customers.

Since 2017, TD has improved its efficiency ratio in its U.S. Retail business every year. However, the

ratio is still at much higher levels than its Canadian Retail business. There is therefore room to reduce the expense-to-revenue ratio for its U.S. Retail business.

Which offers a better dividend?

Interestingly, both banks yield 4% at writing and their 2019 payout ratios were also coincidentally 46%. Royal Bank has a medium objective to increase earnings per share by more than 7% per year, while TD Bank aims for a growth rate of 7-10%.

Since earnings growth drive dividend growth, from a dividend income perspective, it makes a little more sense to choose TD over Royal Bank.

Which bank stock is a better value?

RY stocks trades at about 11.9 times earnings, while TD stocks trades at about 11.1 times. So, TD is a little cheaper than Royal Bank, especially given TD's higher expected growth rate over the longer term. Even assuming a growth rate of 7% for both stocks, TD still wins as a greater-value pick.

Investor takeaway

Both Royal Bank and TD Bank are excellent dividend stocks to own in investors' core portfolios. Despite being a younger bank, Royal Bank is the leader in Canada today.

As mentioned earlier, Royal Bank offers an interesting business mix and diversification, and there's certainly room in most portfolios to [own both top-quality banks](#). That said, TD Bank trades at a bit of [a better value](#). So, if you only have the cash to buy one bank, start with TD.

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