TFSA Investors: TD Bank (TSX:TD) vs. Royal Bank (TSX:RY) Showdown!

Description

The title of Canada's largest bank belongs to royalty for now, with **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and its $153.5 billion market cap. **TD Bank** (TSX:TD)(NYSE:TD) may soon find itself breathing down Royal Bank's neck again once credit finally has the opportunity to normalize in the early 2020s.

For now, TD Bank sports a $134.3 billion market cap, and Royal Bank appears to be a safe lead amidst a bumpy 2019, which could get even bumpier in the new year.

While earnings growth is looking rather sluggish for 2020, Royal and TD still possess best-in-class dividends that'll likely continue to grow at a double-digit rate, making both names worthy buys for extremely long-term thinkers willing to go against the grain.

Without further ado, let's have a brief look at each name to see which is a better fit for your TFSA:

TD Bank

With its sizeable presence in the growthier (and more stable) U.S. market (accounting for about 40% of total net earnings in fiscal year 2019), TD Bank is a natural choice for cautiously-optimistic Canadians to escape (or at least offset) deteriorating domestic credit conditions.

Furthermore, with a greater emphasis on retail banking relative to some of its peers, TD Bank is less subject to excessive earnings volatility, which more than warrants a premium price tag relative to its peers, including Royal Bank.

Add management's prudent history of being conservative with regard to lending into the equation and you've got yourself a bank that looks to be bulletproof under most non-crisis turbulent times.

At the very least, a bank that'll be among the first to come roaring back when the cycle (either economic or credit) inevitably reverses!

At this juncture, TD Bank sports a 4% yield, just a tad higher than usual, with a valuation that's also slightly cheaper than historical averages.

At only 10.7 times next year's expected earnings, TD Bank is too cheap given that it's a robust contender that looks well prepared for the next wave of macro headwinds.

Royal Bank

When it comes to Canadian banks, Royal Bank is true royalty. The bank is undoubtedly is a more domestic player than TD and is thus more exposed to Canada's nasty credit downturn.

Nevertheless, management was not ill-prepared for the downturn in 2019, with modest results that could have been much worse had Royal been caught with its pants down like recent water-treader **CIBC**.

Royal Bank's banking division and wealth management franchise have been a bright spot for the company, especially in the fourth quarter. In its wealth management business, in particular, I see as a source of significant growth moving forward, as the bank looks to take share away from non-bank wealth managers that could bleed record amounts of investors in the 2020s due to an inability to produce a strong value proposition while still being convenient.

Royal Bank trades at 11.4 times next year's expected earnings, a slight premium to TD, with an identical 4% dividend yield.

But which dividend flavour is better?

Given the slightly lower valuation and its greater U.S. exposure, TD Bank is a better buy at this juncture. Although it seems the race is tight, TD Bank's U.S. business could start to flex its muscles in the 2020s as Canadian credit looks to normalize and begin a new cycle.

I predict another two years or so of sluggish earnings growth on this side of the border, so for the growth-hungry, TD Bank looks like an incredible bargain, especially given its lower multiple.

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2. NYSE:TD (The Toronto-Dominion Bank)
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4. TSX:TD (The Toronto-Dominion Bank)

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Author
joefrenette