Canada’s Top 2 Most Profitable Companies

Description

“Turnover is vanity, but profit is sanity,” as they say. Companies have plenty of ways to acquire or juice up revenues, but what really matters to most investors is the company’s ability to transform those sales into tangible profits every year.

Net earnings are, over time, either reinvested to create more value or paid out to shareholders in the form of dividends, which is what makes them so critical. Profitability also indicates a company’s ability to survive economic shocks and sudden downturns in sales.

With that in mind, investors should focus on adding the most profitable companies to their portfolios. Here are Canada’s top two moneymakers.

Royal Bank of Canada

Trailing 12-month net profit: $9.67 billion

The country’s largest private bank is also its most profitable. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) saw profits jump in 2019 and surge a further 22% in the fourth quarter of the year alone.

The bank’s operations are highly diversified, but over the past year it witnessed growth in each of its segments. Fixed income trading and wealth management services grew by double digits, but the biggest segment — Canadian consumer lending — grew despite concerns of record-high consumer debt.

RBC’s stock hasn’t reflected this surge in profitability and is up a mere 4.2% over the past 12 months. That’s unusual for a company that has seen its market value expand by 6.7% compounded over the past five years. The stock currently trades at just 12 times earnings and 1.93 times book value per share, which indicates undervaluation.

While some of its rivals have announced layoffs and restructuring plans to sustain profitability in 2020, RBC's management team believes it can keep profits strong by "…eliminating unproductive activities rather than employees." If this strategy is successful, investors can expect another year of decent returns on their investment.

Toronto-Dominion Bank

Trailing twelve months net profit: $8.59 billion

Unsurprisingly, RBC's closest rival is also nearly as profitable. **Toronto-Dominion Bank's** (TSX:TD)(NYSE:TD) larger presence in the United States and recent sale of its TD Ameritrade business have unlocked tremendous profits over the past 12 months.

As one of the most dominant banking institutions not only in Canada, but also across North America, TD has managed to extract a hefty return on equity (14.64%) for its shareholders.

Management has decided to be conservative with the cash flow and payout less than half of annual earnings (43.52%) in dividends. This means the current 4% dividend yield is well supported.

With its stock trading at just 1.62 times book value per share, the bank appears to be more attractively valued than its larger rival, RBC. TD's management has said it wants to prioritize earnings growth this year, which could boost the valuation over time.

Bottom line

Valuations for growth-oriented unprofitable companies is at an all-time high. However, these stocks tend to trade on investor sentiment and optimism alone. For investors seeking some clarity or sanity, profitable companies with a track record of stable returns are the best bet.

Canadian investors can't go wrong betting on the two most profitable companies in the country: RBC and TD Bank.

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