Royal Bank of Canada (TSX:RY) vs. TD Bank (TSX:TD): Which Stock Is Better?

Description

The Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are two of Canada's largest banks by market cap. Worth $291 billion combined, they account for an enormous share of Canada's financial services industry.

Going by market cap, TD and Royal Bank together are worth more than the remaining four Big Six banks whose collective market cap comes to $226 billion. Royal Bank *alone* is worth more than **BMO**, **CIBC** and **National Bank** combined.

It goes without saying that RY and TD are the 900-pound gorillas of the Canadian banking scene. Beyond sheer size, however, there are important differences between the two companies.

With TD being more U.S.-focused than RY, it has far more growth potential. However, it also faces greater risk.

In this article, I'll be comparing Canada's two biggest banks side by side to see which stock has more upside.

Growth

Over the years, TD Bank's growth has generally outpaced Royal Bank's. In the last three years, TD's net income has grown 27%, while Royal Bank's has increased 19%.

The 2019 fiscal year was a different story. That year, Royal Bank grew earnings by 4%, while TD grew its earnings by 3.9%. While that's fairly close, it's still not a win for Royal Bank.

Royal Bank also had better earnings performance in the fourth quarter. Whereas TD's earnings fell 4% year over year in Q4, Royal Bank's fell by just 1% — pretty weak quarters for both banks, but less so for RBC.

Dividend income

When it comes to dividend potential, TD has a decisive edge over RY. TD's current yield of 3.93% is slightly higher than RY's yield of 3.9%. TD also has a much higher historical dividend growth rate.

Over the last five years, TD's dividend growth has averaged 9.4% annualized, whereas RY's has only averaged 7.3%. TD therefore has a higher yield and better historical dividend growth.

TD will need to improve on last year's results significantly to keep increasing its dividend as it has been without pushing its payout ratio higher.

International presence

When you look at any Canadian bank, you have to ask about its international presence. Canada's financial services industry is mature and highly regulated, with the Big Six players offering largely interchangeable services.

In such an environment, there's not much potential for huge growth; thus, the Canadian banks that enjoy the most international growth are likely to be the biggest winners.

Here again, TD has the edge.

In Q4, TD had $1.2 billion worth of earnings coming from U.S. retail, out of $2.9 billion in total, which means 41% of its total earnings came from U.S. retail banking.

By contrast, just 23% of Royal Bank's revenue came from the U.S., with a tiny fraction of international revenue coming from other markets like the Caribbean.

Although both TD and RY have sizable international operations, TD's are far more robust, leaving it poised for more growth and less exposed to domestic issues like declining consumer credit quality.

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