



## Royal Bank (TSX:RY) vs. TD Bank (TSX:TD): Which Is the Better Buy?

### Description

In the middle of spring, I'd warned investors that bank stocks would [disappoint in the near term](#). The **TSX** enjoyed a rally in April and May, which sectors like technology and healthcare performing very well. Bank stocks, on the other hand, have not managed to recoup the entirety of their losses from February and March.

Today, I want to compare and contrast the top two Canadian bank stocks by market cap; **Royal Bank (TSX:RY)**([NYSE:RY](#)) **Toronto-Dominion Bank (TSX:TD)**([NYSE:TD](#)).

Canadian banks released their second quarter earnings in late May. It was a tough second quarter for Canada's top financial institutions, but there were some bright spots as we moved into June.

Which is the better buy between Royal Bank and TD Bank today? Let's dive in.

### The case for Royal Bank

Royal Bank is the largest financial institution in Canada. Its shares have dropped 6.8% in 2020 as of close on June 2. However, the stock has climbed 10% over the past month. The bank released its second-quarter 2020 results on May 27.

Like its peers, Royal Bank suffered due to the COVID-19 pandemic in Q2 2020. Net income fell 54% from the prior year to \$1.5 billion and diluted earnings per share dropped 55% to \$1.00.

Royal Bank increased its provisions for credit losses to a whopping \$2.83 billion – up \$2.40 billion from the prior year. Net earnings sharply declined in all Royal Bank's major segments.

Shares of Royal Bank last possessed a favourable price-to-earnings ratio of 12 and a price-to-book value of 1.6. It boasts an immaculate balance sheet. Moreover, the bank elected to maintain its quarterly dividend of \$1.08 per share. This represents a solid 4.6% yield.

## TD Bank's status in early June

TD Bank is the second-largest financial institution in Canada. Its stock has dropped 14% in 2020 so far. Shares have increased 6.5% over the past month. Before the release of its second quarter earnings, I'd suggested that TD Bank was a [no-brainer buy](#).

Adjusted net income fell to \$1.59 billion or \$0.85 per share, compared to \$3.26 billion or \$1.75 per share in the prior year. TD's provisions for credit losses ballooned to \$3.2 billion compared to \$919 million in the second quarter of 2019.

Similar to its peers, this cash diversion was the primary culprit behind the sharp decline in profit. TD Bank also experienced huge declines in net income in its Canadian Retail and US Retail segments.

TD Bank stock last had a favourable P/E ratio of 10 and a P/B value of 1.2. Like Royal Bank, TD Bank also possesses a flawless balance sheet. The bank opted to maintain its quarterly dividend payout of \$0.79 per share, representing a strong 5.2% yield.

## Which bank stock should you buy today?

As usual, it's a close call between these two banks. However, today I'm rolling with TD Bank stock. It has a marginal advantage when it comes to value and offers the better dividend yield. Moreover, its large U.S. footprint may pay off in the months ahead.

The U.S. is moving forward with an aggressive reopening, while Canada's top provinces are pushing back their reopening plans. TD Bank could benefit from a surge in economic activity south of the border.

### CATEGORY

1. Bank Stocks
2. Investing

### TICKERS GLOBAL

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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