



Bank Stocks: Should You Buy Royal Bank (TSX:RY) or TD (TSX:TD)?

Description

Canadian [bank stocks](#) continue to recover from the March lows, and investors are wondering which top banks might be attractive additions to their portfolios today.

Let's take a look at the current economic situation to see if Canada's two largest banks deserves to be on your [buy list](#).

Pandemic recovery

Canada's banks took a meaningful hit in March and their share prices initially trailed the broader market recovery. In the past two weeks, however, the financials started to catch up.

Why?

The action in the stock market suggests investors anticipate a V-shaped recovery. If that turns out to be the case and unemployment continues to drop through the end of the year, the banks might come out of the situation better than initially forecast.

The Canadian banks reported rough fiscal Q2 results with profits plunging due to large provisions for credit losses (PCL). The PCL number is a potential loss that the banks book in anticipation of defaults on troubled loans. The actual losses could turn out to be lower if the economy bounces back quickly.

TD

TD ([TSX:TD](#))([NYSE:TD](#)) earned adjusted net income of \$1.5 billion and announced a PCL amount of \$3.2 billion for the quarter ended April 30. The bank is best known for its Canadian retail banking operations, but it also has a large presence in the American market. The PCL in the U.S. business accounted for roughly \$1.1 billion (US\$814 million).

The U.S. has been hit hard by the pandemic, but the country is already reopening the economy. The

jump in jobs in May suggests things might be on the right track. Assuming the good news continues, TD's American business might recover quickly.

TD has a strong capital position with a CET1 ratio of 11%. The dividend should be safe and provides a 4.9% yield at the current stock price of \$65 per share.

TD traded as low as \$49 in March and was as high as \$76 in February.

Royal Bank

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) booked a PCL amount of \$2.8 billion in the latest quarter. The company reported Q2 net income of \$1.5 billion.

Royal Bank finished the quarter with a CET1 ratio of 11.7%, so it has ample capital to ride out the downturn. The dividend appears rock solid and provides a yield of 4.5%.

Royal Bank trades at \$96.50 per share at the time of writing. Investors had a chance to pick it up for as low as \$72 in March. The 12-month high is about \$109, so the stock already recovered a good chunk of the losses.

Risks

Bankruptcy filings for April came in at a record low. This is due to emergency financial support from the government, payment deferrals from the banks, tax deferrals from the CRA and municipalities, and closed courts. There is a risk that bankruptcies will soar in the fall, as people suddenly face all these bills at once.

Even if the official jobless rate drops meaningfully from the current level of approximately 13%, trouble could still be on the horizon. The worst-case scenario would be a second wave of the virus that forces renewed lockdowns and extended unemployment in double digits.

Should you buy TD or Royal Bank?

TD and Royal Bank should both be solid picks for a buy-and-hold portfolio.

That said, the stocks might be getting a bit ahead of themselves at these levels given the ongoing unknowns for the economy and jobs in the coming months.

Volatility should be expected, and investors might see a better entry point later in the year. A market correction in Q4 wouldn't be a surprise.

If you think more upside is on the way and want to secure a solid dividend yield now, TD appears a bit cheaper today and could benefit from optimism in the U.S. market. As such, I would probably make TD the first pick.

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2. Investing

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1. Editor's Choice

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