Comparing Canada's 2 Top Banks

Description

The Canadian financial sector lays claim to some of the country's best stocks. Many of which were featured in my ultimate dividend portfolio. Two of those companies, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), are also two of the largest companies by market cap in Canada. Many investors have trouble deciding between the two, so today I will examine how these companies differ.

Overview

At the time of writing this article, both Royal Bank of Canada and Toronto-Dominion Bank are constituents of the **S&P/TSX 60**, an index of 60 large companies listed on the Toronto Stock Exchange. This indicates that these companies are leaders in the banking industry, as the index is meant to represent the leading companies in important industries.

Royal Bank of Canada was founded in 1864 in Halifax. It is a Canadian multinational financial services company and the largest bank in Canada by market cap. The bank serves over 16 million clients and has over 86,000 employees worldwide.

There are approximately 1,210 RBC branches in Canada. In the United States, RBC exists as a retail banking subsidiary with nearly 450 branches spanning six southeastern states and serving nearly one million clients.

Toronto-Dominion Bank was founded in 1955 in Toronto through the merger of the Bank of Toronto and Dominion Bank. It is also a multinational financial and banking services corporation. Among the bank and its subsidiaries, there are more than 85,000 employees and over 22 million clients across the globe.

Valuation and performance

In terms of valuation, Royal Bank of Canada takes the lead by a decent margin. Currently, the market cap is at $135 billion, while Toronto-Dominion is only valued at $111 billion.

From a fundamental standpoint, we can see that Royal Bank of Canada has a trailing 12-month (TTM) price-to-earnings ratio of 10.73. Toronto-Dominion Bank's TTM price-to-earnings ratio is comparable at 9.75. At the moment, the S&P/TSX 60 has a TTM price-to-earnings ratio of 17.51. Because both of these companies have lower price-to-earnings ratios relative to the overall market, we can conclude that both companies are undervalued compared to the broader market.

From 2018 to 2019, Royal Bank of Canada's total revenue grew from $42.555 billion to $45.926 billion, representing a 7.92% increase. Toronto-Dominion's total revenue only grew from $38.528 billion to $40.729 billion — a 5.71% increase over the same time period. These results indicate that Royal Bank of Canada is producing more money, despite its less-impressive client base.

Dividends

It is no secret that Canadian investors pour into these two companies for the dividends that each company offers. Both banks are currently listed as Canadian Dividend Aristocrats.

Royal Bank of Canada currently has a forward dividend yield of 4.62%. While that is impressive, it is also important that we look at payout ratio (53.78%) and five-year growth rate (3.57%). This compares to Toronto-Dominion Bank's forward dividend yield of 5.20% and a payout ratio and five-year growth rate of 52.81% and 7.93%, respectively.

Foolish takeaway

Both the Royal Bank of Canada and Toronto-Dominion Bank are strong Canadian companies. I would stand by them as great additions to any portfolio. While the Royal Bank of Canada has shown better growth in its total revenue over the past couple years, Toronto-Dominion Bank has the more impressive numbers with respect to its dividends.

I would suggest adding Royal Bank of Canada if you are looking for more growth in capital gains and leaning towards Toronto-Dominion Bank if you are looking to bolster your dividend returns.

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