



## Better Buy: TD Bank (TSX:TD) vs. Royal Bank (TSX:RY)

### Description

When this month began, I'd discussed why I was [bullish](#) on Canadian bank stocks ahead of third-quarter earnings season. Canada's top banks were hit hard in the second quarter. Top financial institutions were forced to divert resources to provisions for credit losses, as risks piled up in this uncertain environment. However, bank stocks still enjoyed a post-earnings bump. Today, I want to compare the top two banks in Canada: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Which is the better buy today? Let's dive in.

### The case for TD Bank after earnings

TD Bank is the second-largest financial institution in Canada. It possesses a huge footprint in the United States, towering over its peers. Its shares have climbed 5.7% week over week as of close on August 28. The bank released its third-quarter 2020 results on August 27.

In Q3 2020, TD Bank reported net income of \$2.25 billion compared to \$3.25 billion in the prior year. Adjusted earnings per share came in at \$1.25, which marginally beat analyst expectations. TD Bank set aside \$2.19 billion for bad loans. This was down from Q2 2020 but still up significantly from the \$1.66 billion in the prior year. Capital Markets led the way for Canada's second-biggest bank. Wholesale Banking net income increased 81% year over year to \$442 million.

Though this crisis has been challenging, TD Bank still boasts an immaculate balance sheet. Its stock last had a price-to-earnings (P/E) ratio of 12 and a price-to-book (P/B) value of 1.3. This puts TD Bank in solid value territory relative to industry peers. Moreover, it declared a quarterly dividend of \$0.79 per share. This represents a 4.8% yield.

### Why Royal Bank looks good going into September

Royal Bank is the largest financial institution in Canada. Its stock has increased 9.2% over the past month. Earlier in August, I'd suggested that investors [should add](#) Royal Bank stock before its earnings release. The bank released its third-quarter 2020 results on August 26.

Canada's top bank beat expectations in Q3 2020. However, CEO Dave McKay warned that the broader economic recovery will be tested, as government programs wind down in the fall. Indeed, Royal Bank approved 500,000 payment deferrals in the third quarter. This illustrates how many clients saw their financial lives disrupted in this crisis.

Meanwhile, Royal Bank's revenue rose to \$12.9 billion in the third quarter compared to \$11.5 billion in the previous year. The bank blew away expectations and posted an adjusted profit of \$2.23 per diluted share — down marginally from \$2.26 per share in Q3 2019. Like TD Bank, Royal Bank was powered by a stellar performance in its Capital Markets division. Royal Bank also possesses a flawless balance sheet.

Shares of Royal Bank last had a solid P/E ratio of 13 and a P/B value of 1.8. It declared a quarterly dividend of \$1.08 per share, representing a 4.2% yield.

## Verdict

As usual, these top two banks are neck in neck as far as value and fundamentals are concerned. Royal Bank had a slightly better performance in Q3 2020, but both banks are facing uncertainty ahead of the fall. I'm more inclined to scoop up TD Bank today for its superior dividend and its marginally better value.

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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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