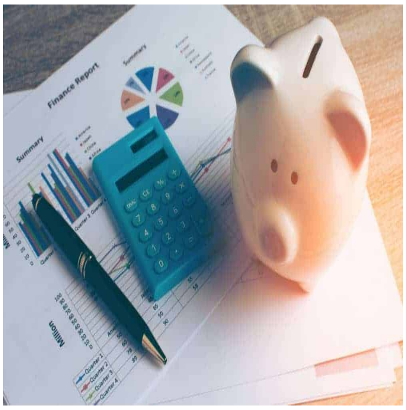

Should You Buy Royal Bank of Canada (TSX:RY) or TD Bank (TSX:TD) Stock in September?

Description

The **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are the biggest players in Canadian banking. Both large-cap TSX 60 stocks are are the biggest of the Big Six. Over the years, both of these stocks have delivered steady if modest returns. TD, in particular, has solidly outperformed the **TSX** over the past decade, rising 103% in 10 years.

This year, both RY and TD faced major headwinds from the COVID-19 recession. Already struggling with deteriorating consumer credit quality, they got hit with likely defaults on mortgages and oil/gas loans. This led to both stocks tumbling massively in the ensuing stock market crash. However, in Q3, both banks reported that they had lowered their estimated loan losses, citing reduced risk factors.

In this environment, there's a solid case to buy bank stocks. Not only are they less risky than before, but they're also posting solid growth numbers in certain business segments. However, there's still the question of which bank to buy. TD and RY are two different stocks with different features. In this article, I'll be exploring which one is a better buy.

The case for Royal Bank

A case for buying Royal Bank over TD could be built on the company's Q3 results. In the third quarter, Royal Bank earned $3.2 billion, down only 2% year-over-year. TD, on the other hand, posted solid *sequential* growth, but earnings were still down 31% year over year.

Based purely on the most recent quarter, Royal Bank's earnings were better than TD's. Both companies' earnings jumped sequentially on lower PCL, but Royal Bank scored a much higher year-over-year result. That was partially thanks to a $296 million earnings increase in Capital Markets, which offset the declines in other business segments.

The case for TD Bank

The case for TD Bank right now is that it has more *potential* upside going forward. Reflecting its solid Q3 results, RY stock is now down a mere 4.4% year-to-date. TD, on the other hand, remains down 12%. If both of these stocks recover to their pre-COVID-19 price levels, then TD Bank will have more upside today.

The question is whether that will actually happen.

TD, like RY, had a mixed quarter in Q3. Earnings in most of its business segments were down, typically in the 30% range, but also like RY, it did have one winning segment. That is, wholesale banking, which grew 81% year-over-year. While these are encouraging result, TD needs more growth in its main retail banking segments to recover.

Foolish takeaway

Heading into the fall, both TD bank and Royal Bank of Canada are looking pretty decent. Both are seeing earnings grow sequentially on lower COVID-19 related credit risks, albeit Royal Bank somewhat more so.

Which one is the better buy largely depends on what you're looking for. Based on Q3 results, RY looks like a safer bet, while TD has more *potential* upside. Ultimately, it's probably best to buy both.

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