Investors' Favourite Dividend Aristocrats Just Went on Sale!

Description

Dividend Aristocrats are usually always great buys on any form of weakness in the grander scheme of things. Right now, Canadian banks are in the gutter due to the perfect storm of headwinds. The downturn in Canadian credit weighed on the profitability of the banks. Then COVID-19 pandemic walloped them while they were already down.

Indeed, a majority of the damage caused by the COVID crisis was isolated to various industries. Sadly, the banks stand to be left in the cold as firms they lent money to become unable to meet their debt obligations. Like many past crises, the Canadian banks will rise again, and it's the Foolish contrarians who had the courage to go against the grain that will lock-in the greatest yield alongside the potential for outsized gains in a return to normal.

While any one of the Dividend Aristocrats in the Big Five may be solid long-term buys at today's valuations, as always, that there's a best bank for your buck. In this piece, we'll have a look at the two top dogs in **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **TD Bank** (TSX:TD)(NYSE:TD) to determine which, if any, is a better contrarian buy at these depths.

Royal Bank of Canada: Dividend Aristocrat royalty

Royal Bank has been a king among men over the past year. RY shares are down just 12% from their all-time highs, while some of its harder-hit peers like TD Bank are off over 26%. Royal Bank has held its own remarkably well thanks to terrific risk management practices and a relatively favourable mix of loans. In the latest quarter (fiscal Q3), Royal Bank's common equity tier 1 (CET1) ratio improved modestly to 12% from 11.7% a quarter prior. With more than enough reserves to weather a second wave of COVID, Royal is the hands-down top bank to buy if you think the pandemic will drag into 2022.

The bank's applaud-worthy performance amid the pandemic is worth paying up for. Still, with a considerable amount of domestic mortgages exposure, Royal Bank isn't without its fair share of risks. While Canada's housing market may be sound for now, should this crisis worsen enough to spark a housing market meltdown, Royal Bank will not be spared from excessive downside, and its premium price tag (1.7x book value) could disappear in a puff of smoke.

TD Bank: Premium bank, discounted valuation

There's a strong case for why TD Bank may be the best bank for your buck. The bank has a track record of surging back with fury after crashes, and this time will be no different. With some of the best risk managers in the banking scene and a typically less volatile retail banking business with a heavier U.S. weighting, TD Bank is well worth a fat premium to its smaller brothers in the Big Five. Now that analysts have turned their backs on the name and other U.S.-heavy banks, TD's premium is non-existent.

In previous pieces, I noted that TD was still a top dog in the Canadian banking scene. The bank underperformed amid this crisis because it didn't have the most resilient mix versus its Canadian banking peers. Once things return to normal, I'd be willing to bet that TD will regain its premium multiple and wouldn't be surprised if it surpasses Royal to become Canada's largest bank within the next decade.

At just 1.2 times book value, TD Bank is nothing short of a bargain, especially if you seek the perfect mix of Canadian and U.S. banking exposure.

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2. NYSE:TD (The Toronto-Dominion Bank)
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