



Should You Buy Royal Bank or TD Stock Now?

Description

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) and **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) have enjoyed strong rallies off the 2020 lows and investors want to know if Canada's two largest banks are still good buys today.

Royal Bank

The bank reported fiscal [Q2 2021 earnings](#) of \$4 billion, an increase of \$2.5 billion from the same period last year. Return on equity was above 19%.

The Canadian banks all set aside significant funds to cover potential losses due to the pandemic. Royal Bank booked provisions for credit losses (PCL) of \$2.1 billion in fiscal Q2 2020. A year later, the bank appears confident the worst-case scenario has been clearly avoided. Royal Bank reversed \$260 million in PCL in the most recent quarter.

Royal Bank continues to sit on significant excess capital. The company finished fiscal Q2 with a CET1 ratio of 12.8%. Once government aid ends and the banks get a clear picture of the loan defaults that will occur, Royal Bank will have several options to deploy the extra cash.

A generous [dividend](#) hike and share buybacks are likely on the way as soon as the government gives the banks the green light to restart handing out the cash hoard. Royal Bank might also look to make an acquisition to boost growth. The bank spent US\$5 billion to get back into the U.S. market a few years ago and could look to add to the business.

The stock trades near \$126 per share compared to less than \$80 at the 2020 low. At the current price, Royal Bank provides a 3.4% dividend yield.

A \$10,000 investment in Royal Bank 25 years ago would be worth about \$325,000 today with the dividends reinvested.

TD

TD reported adjusted [Q2 2021 earnings](#) of \$3.8 billion, up 136% from the same period last year. Adjusted return on equity came in at 17.1%.

Like Royal Bank, TD booked significant PCL last year and is now starting to release or recover the funds it deems no longer needed to cover potential losses. TD reported a \$377 million PCL recovery for the three months ended April 30.

TD finished the quarter with a CET1 ratio of 14.2%. The large PCL reversal, as with Royal Bank's, indicates the bank won't take the losses it planned for last year. The huge capital reserve will likely be deployed as generous dividend increases and share buybacks.

TD is also widely viewed by analysts as the most likely to use the extra cash to make an acquisition in the United States. The bank spent billions over the past fifteen years to build its American business and the time might be right to expand the business.

TD trades close to \$87 per share at the time of writing. It bottomed out around \$53 last year during the worst of the March crash. The dividend yield at the current price is about 3.6%.

Long-term investors have enjoyed great returns. A \$10,000 investment in TD 25 years ago would be worth \$329,000 right now with the dividends reinvested.

Is Royal Bank or TD a good buy today?

Royal Bank and TD are top-quality stocks that have delivered fantastic returns to investors over the past 25 years. That said, neither stock appears cheap at the current price and the shares offer average dividend yields right now.

TD gives investors better exposure to the U.S. economic recovery through its large American retail banking operations. Royal Bank is known for its strong capital markets and wealth management businesses. The stocks look a bit expensive, but both companies arguably deserve to be anchor long-term holdings in a Tax-Free Savings Account (TFSA) or RRSP portfolio.

I would probably split a new investment between the two companies today and look to add to the positions on the next market pullback.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)

4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/08/14

Date Created

2021/06/15

Author

aswalker

default watermark

default watermark