TD Bank (TSX:TD) vs. RBC Bank (TSX:RY): Which Is Better Right Now?

### Description

Canada's bank stocks are as strong as ever. Demand for credit is at a record-high, which is why top banks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **TD Bank** (TSX:TD)(NYSE:TD ) are outperforming. But which one is better? Here's a closer look.



## Royal Bank stock

RBC is one of Canada's strongest banks and has survived a number of recessions all while generating significant value for shareholders in the process. During the last financial crisis in 2008, the bank did not seek any financial assistance. Since then, the stock has jumped from $25 to $131 a share.

Year to date, Royal Bank stock is up by more than 20%, outperforming the overall market despite the growing concerns surrounding the Delta variant.

Since the pandemic started in 2020, the bank has rewarded investors with a 6.5% total return. Additionally, it has kept its dividend payments intact at a time when most companies paused in a bid to conserve capital.

A dividend yield of 3.42% makes Royal Bank of Canada an ideal pick for any investor looking to generate some passive income. After the end of Fiscal Q2, the bank had $9.9 billion in excess capital, affirming its solid financial position capable of sustaining and increasing dividend payments.

## Prospects and valuation

Royal Bank is expected to report solid Fiscal Q3 earnings driven by broader economic recovery and rallying capital markets. As it stands, the stock is a smart bet for anyone looking to generate passive income through dividends and profit from share price appreciation.

Its diversified geographical presence and encouraging economic growth make it an ideal play for long-term investors. The stock is relatively cheap as it is trading with a price-to-sales multiple of 4 and a price to book multiple of 2.

However, it is expensive compared to its peers trading at much lower multiples.

## TD Bank stock

TD Bank, the second-largest bank in Canada, is living up to expectations as one of the best performers among its peers. As one of the best-capitalized banks, it boasts of an impressive return on shareholders' equity of 14% and 8% earnings growth over the past decade.

This bank stands out partly because of the strength of its retail banking and brokerage services. Additionally, it boasts a global presence, especially in the U.S market.

Indeed, 40% of the bank's revenues are generated in the U.S., a higher proportion than RBC. With the U.S. economy recovering from the pandemic much faster, fuelling talk of interest rate hikes, TD bank remains well-positioned to be one of the biggest beneficiaries. The stock is already up 20% year to date.



## Valuation and fundamentals

An average annual profit growth of between 6.83% and 8.79% over the past five years also affirms the bank's ability to generate shareholder value. Compared to RBC, it also boasts of a much higher dividend growth rate. Its dividend yield of close to 4% is one of the highest.

The stock is also relatively cheap, as it is trading with a price-to-sales multiple of 3.87. Meanwhile, the price-to-book multiple is 1.75. In addition, the stock is down by about 7% from all-time highs, presenting an opportunity to buy at a discount.

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