Should You Buy RBC (TSX:RY) or TD (TSX:TD) Stock?

Description

The financial sector in Canada saw a sharp dip a few days ago, and even though it has already started to recover, this dip might be a strong indicator of a correction to come. The financial sector, spearheaded by the banking sector, has been on the rise for the last eight to 10 months.

Most banks grew at a pace that was quite detached from their usual growth pattern. Initially, it was just the recovery-fueled growth. Then it was augmented by consecutive successful quarters, solidifying and boosting investor confidence in the banks. But the long-due correction might be here to disrupt the upward momentum.

And if it causes the bank stocks to dip considerably, you will be able to buy them at a discount *and* lock in a better yield. And the best place to start the "bank buying spree" would be the two giants, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion** (TSX:TD)(NYSE:TD).

The second-largest bank in Canada

TD is the more U.S.-leaning out of the two banks, albeit by a very small margin. About 29% of its revenue came from the US retail business, and it's counted among the top ten banks in the US. Another distinguishing factor about its revenue is its wholesale business, which made up about 9% of the revenue in the third quarter of 2020.

Another reason to consider TD would be its powerful digital userbase. The bank has about 15.2 million active digital users, which is significantly more than RY's 7.9 million. And since that's the next frontier of banking, TD might have a slight edge.

The bank stock grew about 34% in the last 12 months, and because of the recent slump, the yield has risen to 3.8%. If it keeps sliding down, you might be able to lock in a 4% yield or higher. The capital-appreciation potential, especially if we consider the last five years (apart from the post-crash surge), is modest at best. However, if we stretch back a bit further, things look relatively more promising.

The largest bank in Canada

Royal Bank of Canada has an impressive international presence. Only about 58% of its revenue in the last quarter came from the country. The rest was from the U.S. (26%) and a few other international markets. Geographically, it's more spread out, which gives it better growth opportunities.

But that's not the primary reason to consider RY instead of TD. RY offers more consistency of growth, which is quite apparent both before and after the pandemic-driven crash. The five-year returns and 10-year CAGR of RY are also considerably better than TD's. The yield is a bit lower (3.44%).

RY offers more stability and a better physical footprint. Its business banking segment is also quite strong. If it starts focusing more on its digital presence and number of users and starts making longer leaps in the digital realm, it will become an even more compelling pick.

Foolish takeaway

Compared to TD, Royal Bank is a bit overvalued. But the collective package of growth and dividends it offers might be slightly better than TD, which doesn't make it a clear winner. If you are adamant about choosing one, it might be better to go with RY, but it would still be a good idea to add both dividend stocks to your portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. 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. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/06/29
Date Created
2021/09/25
Author
adamothman