



Should You Buy TD Bank or Royal Bank Stock Now?

Description

Canadian bank stocks have pulled back from their 2022 highs. The dip has investors wondering which of the big banks might be attractive to buy now for a self-directed [TFSA or RRSP](#) portfolio. Let's take a look at **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) to see if one deserves to be on your buy list.

TD Bank

TD trades near \$95 per share at the time of writing compared to \$109 about two months ago. The current price puts TD stock at just under 12 times trailing 12-month earnings. That's still not a fire sale price, but the shares are beginning to get attractive, especially after the recent announcement.

What's the scoop?

TD is spending US\$13.4 billion to buy First Horizon in the United States. The move was expected, as the big Canadian banks are all sitting on significant excess cash they built up to ride out the pandemic. According to [reports](#), TD apparently lost a bidding war to **Bank of Montreal** last fall, when BMO announced its US\$16.3 billion deal to buy Bank of the West.

TD raised its dividend by 13% late last year for fiscal 2022 when the government lifted its ban on distribution increases for the banks. The increase could be matched for 2023.

Investors who buy the stock near the current share price can pick up a 3.75% yield and look forward to ongoing distribution increases.

Royal Bank

Royal Bank trades near \$136 at the time of writing. That's down from the 2022 high around \$150. The current price-to-earnings ratio is just above 12, so the market is pricing earnings at TD and Royal Bank at close to the same value.

Royal Bank recently announced its own acquisition. The bank is spending \$2.6 billion to beef up its wealth management presence in the United Kingdom. Royal Bank's last big purchase occurred in the United States in 2015 when it spent US\$5 billion to buy City National, a private and commercial banking and wealth management bank located in California.

Royal Bank finished fiscal 2021 with \$14 billion in excess cash, so it has room to do a number of small deals or make a significant acquisition similar to what TD and BMO have done.

Royal Bank raised its dividend by 11% for fiscal 2022. Investors should see solid dividend growth continue in the next few years. The current payout offers a yield of 3.5%.

Risks

The drop in the prices of bank stocks is partly due to investors booking profits after strong rallies off the pandemic lows and moving the funds to new opportunities in the commodities [sectors](#). Investors might also be concerned about the new bank tax announced by the Canadian government. The banks will pay a 15% surtax on their fiscal 2021 earnings above \$1 billion and will also see their corporate tax rates increase from 15% to 16.5%. These hits will put a dent in cash available for dividend hikes and share buybacks, but the long-term impact on shareholders should be minimal.

Rising mortgage rates could be another concern. Last summer, home buyers could get a five-year mortgage for 2%. Today, that same mortgage is approaching 4%. The higher debt costs will likely slow down the hot housing market and an extended surge in mortgage costs could trigger a housing correction in the next few years if homeowners who have to renew at much higher rates are forced to sell their properties.

Should you buy TD or Royal Bank stock?

Bank stocks could move lower in the near term, so I wouldn't be in a hurry to back up the truck. That being said, if the multiples dip below 11 times trailing earnings, investors might want to start nibbling on either TD or Royal Bank. Both should be solid buy-and-hold picks for a TFSA or RRSP focused on total returns.

CATEGORY

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

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