



Is TD Bank (TSX:TD) or Royal Bank (TSX:RY) Stock a Buy?

Description

The pullback in the prices of Canadian bank shares is starting to look overdone. Investors who missed the large rally off the 2020 lows are now wondering if the banks are [undervalued](#) again and if this is a good time to buy the shares. Let's take a look where the banking sector is headed and see if **TD** ([TSX:TD](#))([NYSE:TD](#)) or **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) deserves to be on your buy list.

Bank sector outlook

At the start of the year, investors stormed into bank stocks on the hopes that rising interest rates in Canada and the United States would drive net interest margins and profits even higher over the next couple of years.

That theory is still valid and is the reason the bank stocks now appear undervalued after the large pullback. What changed over the past few months, however, is the fear that persistent high inflation is forcing the central banks to speed up the rate-hike process and move rates much higher than expected to fight inflation. High prices are already causing households to reduce spending on discretionary items. Soaring debt costs could result in a more dramatic cut to spending and trigger a recession. In addition, investors are concerned that a wave of homeowners with too much mortgage debt will be forced to sell their homes.

If the housing market plunges much more than the anticipated 10-15%, the Canadian banks could take a hit. This is certainly a possible outcome if the Bank of Canada decides that over-leveraged households will have to be the collateral damage to get inflation under control.

That being said, the risk to the banks is likely limited. Even if the situation really starts to get ugly, the government will probably allow the Canadian banks to simply offer homeowners longer amortizations on the mortgages to help offset the hike in mortgage rates and slow the meltdown in the housing sector. At one time, homeowners could get amortizations up to 40 years, so the government isn't afraid to go down that road. Whether we get to this situation of extended terms again is yet to be seen, but the banks will likely do just fine regardless of how things evolve.

TD

TD trades near \$86.50 at the time of writing compared to a high of \$109 earlier this year. The stock is down about 13% in 2022 and pretty much trades where it was a year ago. TD raised the dividend by 13% late last year and is in the process of making a US\$13.4 billion acquisition in the United States. The purchase of First Horizon will add more than 400 branches and make TD a top-six bank in the American market.

At the time of writing, the shares trade at 10.75 times trailing 12-month earnings and offer a 4.1% dividend yield.

Royal Bank

Royal Bank trades for \$124.50 at the time of writing compared to a high just above \$149.50 in January. The stock is down 9% in 2022 and, like TD, trades close to where it was 12 months ago. Royal Bank increased the dividend by 11% late last year and recently increased the payout by another 7%. At the time of writing, the stock trades for 10.9 times trailing 12-month earnings and provides a 4.1% dividend yield.

Royal Bank is using part of its cash hoard to buy a wealth management business in the U.K. for \$2.6 billion. Given the amount of excess capital the bank has on the balance sheet, investors could see additional deals.

Is one a better buy?

Royal Bank and TD are the two largest Canadian banks by [market capitalization](#). The two stocks offer dividend yields in the same range and trade at similar multiples. At this point, I would probably split a new investment between the stocks. Royal Bank and TD look cheap right now and should deliver solid total returns for a buy-and-hold [TFSA or RRSP](#) portfolio.

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. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date

2025/06/29

Date Created

2022/06/20

Author

aswalker

default watermark

default watermark