TD Bank vs Suncor Energy – Which Value Stock is Best?

Description

The **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Suncor Energy** (TSX:SU)(NYSE:SU) are two of Canada's most widely-owned stocks. TD is the country's second biggest company by market cap (i.e. total market value), Suncor is the 16th biggest. Beyond being big players in their industries, Suncor and TD share other features in common. Both pay dividends. Both have U.S. operations. Both have histories stretching back over 100 years.

Perhaps the most obvious similarity between TD and Suncor is the fact that they're both value stocks. A "value stock" is a stock whose price is low compared to the company's net assets and earnings. It doesn't mean that the stock price is low in dollars, but that the ratio of the stock's price to certain business performance metrics is low. As judged by the price-to-earnings (P/E) ratio, TD and Suncor are both good value stocks. The question is, which of the two is the better value stock for investors today?

The case for TD Bank

TD is a bank stock with a 10.25 P/E ratio. This means that, if TD's earnings don't change over time, then its profits over 10.25 years equal its current stock price. That's a relatively short timeframe for a stock to earn back its holders' investment.

What else does TD have going for it?

First off, as a bank, it can potentially profit off the higher interest rates we're seeing today. The Bank of Canada recently increased interest rates by 1% in a single month. When interest rates go up like that, banks charge higher interest on loans. This can cause their earnings to rise, provided that the economy does not go into a recession.

Second, it is a good dividend stock. TD Bank currently has a 4.25% dividend yield, meaning that you get 4.25% of your investment back in dividends each year. You can earn your entire investment backin dividends within 23.5 years at a 4.25% yield, assuming the yield doesn't change. If the dividendgrows, like TD's has, you can recoup your investment much faster than that.

The case for Suncor Energy

Suncor Energy is an energy stock with a 9.5 P/E ratio. That makes it even cheaper than TD Bank. Its dividend yield is also higher than TD's, at 4.6%. And, its profit is growing faster than TD's: in its most recent quarter, Suncor grew at 259%, while TD barely grew at all.

Given that Suncor is cheaper and growing faster than TD, the decision to invest in it seems like an open and shut case. Suncor is the best value *and* has the best growth, so it's obviously the better stock, right?

Unfortunately it's not that easy. Suncor is an oil stock, and oil stocks are very sensitive to oil prices. SU's growth rate was extremely high last quarter, sure, but it lost money four quarters in a row in 2020. This is the nature of commodity stocks, which sell raw materials that fluctuate wildly in price all the time.

Verdict: It depends on your individual needs!

Having looked at both TD and Suncor Energy, it's clear that there is no "one-size-fits-all" recommendation that can be given on either one of them. Suncor will do better than TD when oil prices rise, TD will do better than Suncor when oil prices fall. Ultimately, the decision between the two stocks comes down to how much risk you're willing to take. Oil stocks like Suncor are a riskier proposition than big banks, but they can deliver truly explosive returns when the oil market is good. You could possibly profit by investing in them, but don't expect a smooth ride.

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