



Should You Buy TD Bank or Royal Bank Stock Now?

Description

Canadian [bank stocks](#) took a beating in recent months amid rising recession fears. Investors who missed the big rally in financial stocks after the pandemic [market crash](#) are wondering if this is a good time to add **TD** ([TSX:TD](#)) or **Royal Bank** ([TSX:RY](#)) to their Tax-Free Savings Account (TFSA) and [Retirement Savings Plan \(RRSP\)](#) portfolios.

TD

TD trades for \$86 per share at the time of writing compared to \$109 back in February. This is a significant pullback considering the company is on track to top 2021 earnings in 2022 and is sitting on significant cash reserves that will enable TD to ride out a downturn. The shares currently trade for a reasonable 11 times trailing 12-month earnings.

TD is making two significant investments in the United States to drive future growth. The bank is buying **First Horizon**, a retail bank, for US\$13.4 billion. It's a move that makes sense as the roughly 400 branches that will be added to the TD's current operations are located in the southeastern part of the country. TD spent a good part of the past 15-20 years making acquisitions to build a strong U.S. business that currently runs from Maine all the way down the east coast to Florida. The addition of First Horizon will make TD a top-six bank in the American market. This means it should have the scale needed to compete and grow.

TD is also expanding its capital markets clout with the US\$1.3 billion purchase of **Cowen**, an investment bank.

TD raised the dividend by 13% for fiscal 2022. Another double-digit increase is likely on the way for fiscal 2023. TD has a compound annual dividend-growth rate of about 11% over the past 25 years. The current dividend provides a yield of 4.1%.

Buying TD stock on dips has historically proven to be a savvy move for patient investors. A \$10,000 investment in TD stock 25 years ago would be worth about \$160,000 today with the dividends reinvested.

Royal Bank

Royal Bank trades near \$125 per share right now compared to just under \$150 at the 2022 high. As with TD, Royal Bank is a profit machine and fiscal 2022 earnings will beat the \$16.1 billion in net income the bank generated last year. The stock currently sits at 11.4 times trailing 12-month earnings.

Royal Bank is also using excess cash to make strategic acquisitions. Earlier this year, Royal Bank announced a \$2.6 billion deal to buy a wealth management firm in the United Kingdom. The purchase of **Brewin Dolphin** will make Royal Bank a top-three player in the wealth management market in the U.K. and Ireland.

Royal Bank increased its dividend by 11% late last year and then raised the payout by another 7% when the company reported fiscal second-quarter 2022 results. The distribution currently provides a 4% yield.

A \$10,000 investment in Royal Bank stock 25 years ago would be worth about \$170,000 today with the dividends reinvested.

Is one a better buy?

TD and Royal Bank pay attractive dividends that should continue to grow. The two stocks have generated similar returns over the past 25 years and should both be solid anchor picks for a TFSA or RRSP portfolio. If you only choose one, TD is the cheaper of the two right now and probably offers more upside potential over the medium term due to the big bets in the United States.

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