



## Better Buy: TD Bank Stock or Royal Bank Stock?

### Description

Bank stocks look oversold after the big pullback from the 2022 highs. Investors who missed the rally after the pandemic crash are wondering which Canadian [bank stock](#) is best to buy at the current [undervalued](#) prices. Let's take a look at **TD** ([TSX:TD](#)) and **Royal Bank** ([TSX:RY](#)) to see if one deserves to be on your buy list.

### TD

TD has a current [market capitalization](#) of \$149 billion. The stock trades near \$82 per share at the time of writing compared to \$109 at one point earlier this year. Investors can now pick up a 4.3% dividend yield. TD raised the dividend by 13% for fiscal 2022.

TD invested tens of billions of dollars over the past 20 years to acquire regional banks along the east coast of the United States in an effort to build a strong presence in the American market. That trend continues, as TD is working through two new deals. The bank is buying **First Horizon** for US\$13.4 billion in a move that will expand TD's reach in the southeastern states by adding more than 400 new branches. Once the deal is closed, TD will be a top-six bank in the United States. TD is also spending US\$1.3 billion to acquire **Cowen**, an investment bank. The purchase will enhance TD's capital markets operations.

TD stock current trades for 10.4 times trailing 12-month earnings. The company generated adjusted net income of \$11.4 billion through the first three quarters of fiscal 2022 compared to \$10.7 billion in the same period last year, so TD is on track to beat its 2021 results, despite the challenging economic conditions. TD finished the fiscal third quarter (Q3) 2022 with a common equity tier-one (CET1) ratio of 14.9%. This measures the amount of cash the bank has on hand to ride out difficult times. The minimum CET1 requirement for the Canadian banks is 10.5%. A good chunk of the excess capital is being used to make the acquisitions.

### Royal Bank

Royal Bank is Canada's largest financial institution with a market capitalization of \$171 billion. It is also among the top 10 in the world based on this metric, serving 17 million clients in Canada, the United States and 27 other countries.

RY stock trades near \$121 per share at the time of writing compared to just under \$150 at the 2022 peak. The shares are currently trading around 11 times trailing 12-month earnings.

Royal Bank is sitting on excess cash it can deploy on acquisitions, share buybacks, or dividend increases. The bank recently completed a \$2.4 billion acquisition in the U.K. that was announced earlier this year. Royal Bank bought Brewin Dolphin as part of its strategy to boost its wealth management operations in the U.K. and Ireland. The bank's CET1 ratio at the end of fiscal Q3 2022 was 13.1%. Even with the U.K. acquisition removed, RY still has significant extra cash to put to work on other potential acquisitions. Valuations are much lower than they were at the beginning of the year.

Royal Bank increased the dividend by 11% late in 2021 and raised it another 7% when the bank reported fiscal Q2 2022 results. The distribution offers a 4.2% dividend yield right now.

## Is one a better bet?

TD and Royal Bank are both high-quality bank stocks with strong track records of delivering attractive dividend growth and total returns. Assuming TD closes the two U.S. purchase the bank offers investors good exposure to the American retail banking operations. Royal Bank has a broader international footprint and could still use its cash hoard to do a deal in the U.S. market.

At this point, I would probably split a new investment between the two stocks.

### 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. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News

9. Yahoo CA

**PP NOTIFY USER**

1. aswalker
2. kduncombe

**Category**

1. Bank Stocks
2. Investing

**Date**

2025/08/25

**Date Created**

2022/10/11

**Author**

aswalker

default watermark

default watermark