



Better Buy: TD Bank or Royal Bank?

Description

TD Bank ([TSX:TD](#)) and **Royal Bank of Canada** ([TSX:RY](#)) are among Canada's biggest banks. TD is the nation's biggest bank by assets, RY the biggest by market cap. The two banks are similar in terms of earnings, business activities, and geographic focus (both operate in Canada and the U.S.). This makes them worth comparing.

In this article, I will explore TD Bank and Royal Bank side by side, so you can decide which is the better buy.

The case for TD Bank

TD Bank has several advantages that make it a desirable buy. Some of them could be thought of as advantages over Royal Bank of Canada.

The first is growth. TD Bank has been growing faster than Royal Bank recently. In its most recent quarter, TD's earnings grew 76% on an adjusted basis and 5% on a reported basis. "Adjusted earnings" means earnings calculated in a way that the company considers appropriate; "reported earnings" means earnings calculated by the official accounting rules. In the same quarter, when TD reported either 76% or 5% earnings growth (depending on how you look at it), Royal Bank reported just [2% earnings growth](#). So, TD grew faster.

The second advantage TD has is catalysts. TD has two big deals coming up that could kick its earnings growth into high gear. This year, TD is aiming to buy out the U.S. banks **First Horizon** and **Cowen**. Together, these banks earn about \$1 billion a year, so they'll add a lot to TD's bottom line if both deals close. So far, the First Horizon deal is facing some regulatory pushback, but the Cowen deal looks ready to go ahead. So, that's at least US\$128 million a year in extra earnings that TD will gain.

The case for Royal Bank

The case for Royal Bank over TD Bank rests on the fact that it has a much longer history of financial stability. Royal Bank is about 150 years old; it has paid dividends for 100 consecutive years! TD Bank by contrast was founded 68 years ago. So, TD doesn't have quite the ultra-long track record that RY has. Past history isn't everything in the game of investing, but it is one factor to consider, and RY scores a little better on this factor than TD does.

Another advantage RY has is its [HSBC deal](#). HSBC Canada is the Canadian subsidiary of a British bank that Royal Bank is buying for \$13.4 billion. This deal isn't quite as big as the combined value of TD's First Horizon and Cowen deals, but it's a worthy deal in its own right. One thing is, because HSBC Canada is Canadian, RY doesn't need to navigate a foreign market's rules and politics to close the deal. So, the odds of closing may be a little higher.

Foolish takeaway

Between TD Bank and Royal Bank, I personally prefer TD. It's growing faster while having a valuation that's close to RY: that's an open and shut case for me personally. However, there are reasons why other investors may prefer RY. If you really like companies that can boast very long-term stability, then RY is the bank for you. Perhaps even better than owning TD or RY would be owning both.

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