Why Toronto Dominion Bank Belongs in Every Investor’s Portfolio

Description

Canada’s top five banks have become key holdings in almost every investor’s portfolio as they continue to go from strength to strength, reporting record financial results year after year and consistently increasing their dividends. But the key question for investors is which one to invest in, because they are not all equal.

I recently took a closer look at the gambles each of the top five was taking to continue their growth, and it’s clear that each bank has a different risk profile for investors.

Aggressive expansion into the U.S. is a gamble but is paying off

Of the top five, the one that stands out is **Toronto Dominion Bank** (TSX: TD)(NYSE: TD), which has chosen to boost its growth opportunities by aggressively expanding its operations in the U.S. The U.S. is not only the world’s largest single national economy, but it has the world’s single largest banking and financial services marketplace, covering the full gamut of financial services.

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This has seen it build an impressive retail banking footprint in the U.S. with over 1,300 branches, with its U.S. retail banking business contributing almost 21% of total net income. Loans under management in the U.S. account for 23%, or almost a quarter, of Toronto Dominion’s total loans under management, and deposits there make up 35% of total deposits held by the bank.

Furthermore, its U.S. retail banking operations continue to grow strongly, with net income for the fiscal second quarter of 2014 (calendar first quarter) jumping a healthy 7% quarter over quarter and 13% year over year. This is on the back of solid deposit and loan growth, with deposits growing 1.5% quarter over quarter and 8% year over year, while loans grew 1% quarter over quarter and 10% year over year.

A key driver of the strong performance of the bank’s U.S. retail operations has been the better than expected performance of the world’s largest economy. Not only has the U.S. economy performed well, but according to a number of economists there are a range of indicators showing that it will rebound strongly in the second quarter of 2014 and continue to grow over the remainder of the year.

This bodes well for further growth of the bank’s U.S. banking operations and will certainly contribute to further bottom-line growth.

The U.S. growth strategy gives it an edge over its domestic-focused peers

It also leaves Toronto Dominion Bank better placed than either **Royal Bank of Canada** (TSX: RY)(NYSE: RY) or **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) to continue growing if the Canadian economy slows or the housing market corrects. Almost a quarter of the bank's netincome is derived from the U.S., whereas both Royal Bank and CIBC are predominantly reliant upontheir domestic commercial banking operations to drive growth.

CIBC also continues to struggle with its underperforming Caribbean operations, which are weighing heavily on its bottom line. The bank took a $543 million writedown on these operations for the first quarter of 2014.

Without a doubt, Toronto Dominion faces considerable execution risk with its growth strategy of expansion into the U.S., particularly as this can be a fickle financial services market. But to date it is paying dividends for the bank, with strong lending and deposit growth in its U.S. retail operations making a solid contribution to the overall bottom line.

This has allowed the bank to reward shareholders by boosting its dividend for the last three consecutive quarters, leaving it with a healthy dividend yield of almost 4%. I would also expect this growth to continue as its U.S. operations continue to grow and contribute a greater portion of the bank's net income.

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CM (Canadian Imperial Bank of Commerce)
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