

1 Growth Stock to Buy and Hold Forever

Description

 When it comes to dividend yields, bigger isn't necessarily better.

Case in point: **Toronto Dominion Bank** ([TSX: TD](#))([NYSE: TD](#)).

Today, Canada's largest lender by assets yields only 3.4%. That's the bottom of the barrel among the country's big banks.

Yet investors who have passed over the stock based on its yield alone have missed out on some phenomenal dividend increases.

It's this kind of long-term commitment that sets TD Bank apart from most stocks in the marketplace. The company has been able to maintain its payout in good times and bad — it hasn't missed a dividend payment to shareholders since 1857.

That payout is still growing. Last February, TD Bank hiked its quarterly dividend 9% to \$0.47 per share — one of the largest increases in the company's history. Since the end of the financial crisis in 2009, TD Bank has increased its dividend at the fastest rate of any large bank.

Company	Yield	5-Year Dividend Growth
Royal Bank of Canada	3.80%	7.3%
TD Bank	3.43%	9.0%
Bank of Nova Scotia	3.63%	5.49%
Bank of Montreal	4.07%	1.66%
CIBC	4.12%	2.41%

Source: Google Finance

Over the past 15 years, the bank has increased its dividend by 150%. If you had bought and held the stock over that time, the yield on your original investment would have been 10.7% today.

The key ingredient to this success is the company's U.S. expansion. Thanks to good old-fashioned Canadian conservatism, TD Bank was well-capitalized heading into the financial crisis. With U.S. banks weakened by bad loans and defaults, the company could quickly build out its U.S. network on the cheap.

Now that bet is starting to pay off. Last quarter, deposits and loans grew 8% and 10% year over year respectively. Net income increased 15% compared to the same period last year, making U.S. retail banking the fastest-growing division within the company.

Investors can count on those gains to accelerate in upcoming quarters. Every economic indicator, like home sales, jobs, auto sales, and housing prices, is improving. That means more mortgages, more credit cards, and fewer defaults.

TD Bank's Canadian operations are also "firing on all cylinders" according to Tim Hockey, Group Head of the bank's domestic banking division. With the stock market hitting new highs, the company's wealth management division is posting strong results thanks to growing mutual fund sales and more assets under management. The bank is still building out its Canadian retail banking with the acquisition of Aeroplan from **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) last year.

To be sure, not everyone is impressed. Over the past few years, its U.S. operations have struggled to generate returns on capital far north of 6%, and a Canadian real estate slowdown would certainly slow growth.

However, TD Bank's U.S. expansion is starting to pull its own weight. Last quarter, the division generated a return on equity of 9.1%, which was roughly in line with the bank's cost of capital. With the country's economy improving, investors can expect that figure to grow further.

TD Bank has done a lot to mitigate its exposure to any Canadian real estate bubble. Chief Executive Ed Clark has been discussing these risks in the company's conference calls since 2011. Management has taken a number of steps, including allocating capital away from personal loans to commercial lending and other divisions.

Don't skip over TD Bank because of its measly payout today. While the stock's yield is lower than those of its peers, the company has the best growth prospects in the sector. That should mean a growing stream of dividends for income-hungry investors.

CATEGORY

1. Investing

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

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