Why Recent Weakness Makes Now the Time to Buy Toronto-Dominion Bank

Description

Given their popularity among investors as buy-and-hold stocks, Canadian banks rarely ever appear oversold. But after the recent carnage on the market, **Toronto-Dominion Bank** (TSX: TD) (NYSE: TD) stock seems just that, with its share price losing 9% over the last month compared to the S&P TSX 60 Index's 5%.

This, I believe, makes now an ideal time for investors to boost their exposure to Canada's largest bank by assets because of its solid growth prospects and steadily growing dividend.

Possesses solid growth prospects

One of Toronto-Dominion's most compelling characteristics is the bank's solid growth prospects, having built a strong presence in the U.S. through its commercial banking and wealth management franchises.

For the fiscal third-quarter (calendar second quarter) 2014, its U.S. business contributed 26% of the bank's total net earnings, making it the second-largest contributor of earnings after Canadian banking. More promising is its U.S. business continues to experience solid credit growth, with loans under management up 8% compared to the equivalent quarter in 2013. This now sees total loans and acceptances in its U.S. business making up a quarter of its total loan portfolio.

I expect this strong growth to continue on the back of better-than-expected U.S. economic growth. U.S. unemployment recently hit a six-year low and economic growth in the second quarter surged 4.6%, well above the 3% initially predicted by economists.

This good news will also help to boost consumer confidence leading to increased spending and greater demand for credit, which will boost loan growth and ultimately earnings for its U.S. banking business. There are also signs of a recovery in the U.S. housing market, which should see increased demand for mortgages fueling further growth of its loan portfolio.

Solid low-risk balance sheet

Like its big six peers, Toronto-Dominion possesses a solid balance sheet and is well capitalized, with a common equity tier one capital ratio well above the regulatory minimum. The quality of its loan portfolio is exceptional, with gross impaired loans being a mere 0.55% of total loans and acceptances, well below the threshold that starts alarm bells ringing.

Each of these factors highlights the quality of Toronto-Dominion's operations, the quality of its loan book, and the soundness of its business. This leaves it well positioned to weather any sustained economic downturn, while remaining profitable.

How good is that dividend?

The quality of Toronto-Dominion's business is highlighted by its steadily growing and sustainable dividend, which currently has a yield of 3.5% and a payout ratio of 46%.

But more importantly, the bank has consistently paid a dividend for the last 44 years, hiking the dividend every year for the last four consecutive years on the back of record financial results. These regular dividend hikes gives Toronto-Dominion's dividend an impressive compound annual growth rate of 11% since inception. This growth rate is superior to the returns offered by a range of other investment assets as well as the annual average inflation rate over that period.

Furthermore, the bank's solid growth prospects, quality balance sheet, and low payout ratio suggest that further dividend hikes are more than likely.

Toronto-Dominion Bank stacks up as a solid investment opportunity for investors and the recent share price weakness presents a compelling invitation for investors to add it to their share portfolio.

CATEGORY

1. Bank Stocks
2. Investing

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