Can the Toronto Dominion Bank Keep the Dividend Hikes Coming?

Description

A lot of companies raise their dividends, but few are as predictable as the **Toronto Dominion Bank** (TSX: TD)(NYSE: TD).

For more than a decade, the bank has been in the habit of increasing its payout a couple of pennies almost every other quarter. That includes the most recent bump in April, when the company hiked its quarterly dividend 9% to $0.47 per share.

Those small increases may seem puny in isolation, but they can add up to some hefty gains for shareholders. Since 2004, TD's dividend has shot up 175%. If you had bought and held the stock over that time, the yield on your original investment would be nearly 10% today.

Can TD keep those dividend hikes coming? Analysts think so, given the company's recent track record and growth prospects.

Touted as 'America's Most Convenient Bank', TD is now the sixth largest retail banker on the continent. Thanks to old-fashioned Canadian conservatism, the firm was well capitalized before the financial crisis. That has allowed TD buy out a number of great American banks on the cheap.

Now that bet is paying off. Today, every U.S. business indicator – including jobs, home prices, and auto sales – is on the upswing. That means more loans, more mortgages, and more credit cards. As a result, TD's American banking group is the fastest growing division within the company.

"U.S. Retail continued to deliver on our organic growth strategy," said Mike Pedersen, Group Head of U.S. Banking in August, adding "customer acquisition and deposit and lending growth were strong, with business lending especially good in the third quarter."

TD's expansion isn't limited to the United States, either. Last quarter, the company's wealth management division posted record earnings thanks to a booming stock market and strong demand for mutual funds. The firm's credit card profits were also up big thanks to a partnership with **Aimia Inc's** Aeroplan loyalty program.

Of course, there are some holes in the TD story. This company is no slam dunk. While the firm is doing well south of the border, investors are worried about a retail banking slowdown right here in Canada.

The yield on five-year Government of Canada bonds has fallen more than 40 basis points since the start of the year, which has weighed on margins. “The banks are still facing a pretty tough operating environment.” Chief Financial Officer Colleen Johnston said after the firm’s last quarterly report, “We’re seeing slowing loan growth and low interest rates.”

That said, one disappointing quarter doesn’t discredit the company’s growth story. While TD’s mortgage business is slowing, the firm is finding new ways to grow profits elsewhere. The company is expanding operations in other divisions such as personal and business loans. Auto insurance profits have also been solid.

All of which suggests that TD will be delivering dividend hikes for many years to come.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/05
Date Created
2014/11/06
Author
rbaillieul