Dividend Investors: The Case to Buy Toronto-Dominion Bank

Description

With dividend yields, bigger isn't always better. Case in point: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

The country's second largest financial institution has almost always sported the lowest yield amongst its peers. But investors who gave the stock a pass based on yield alone would have missed out on some remarkable dividend growth.

For the 15 years ended February 4, TD's annualized total return, including dividends, was 12.8%. Over that time, the dividend has grown nearly fourfold, and more increases are almost certainly on the way as the company's earnings continue to climb.

It's this type of long-term consistency that sets TD apart from competitors. It's also the reason why I have been recommending the stock for years, even in spite of the company's recent challenges.

Here's one dividend stock to buy and hold forever

While most of the nation's banks have gone all in on Canada, TD has been looking south of the border for opportunities. Thanks to good ol' fashion Canadian conservatism, the company was well capitalized before the financial crisis. That allowed the firm to build out its U.S. operations on the cheap.

Now that bet is paying off. Today, American business indicators — including jobs, housing prices, and auto sales — are looking up. As a result, TD's U.S. banking profits are increasing at a double-digit annual clip, making it the fastest growing segment within the company.

For shareholders, that should translate into a growing stream of income. Since 2010, TD has hiked its annual dividend more than 50%, to $1.88 per share. Barring some sort of global catastrophe, the company will raise its payout again this spring.

Yet despite its strengths, TD shares are trading at a modest eight times forward earnings. That's not exactly a screaming bargain. However, the multiple is reasonable for a company with a bulletproof balance sheet, strong free cash flow, and plenty of growth potential.

Of course, TD does face some headwinds. As crude oil prices plunge, the Canadian economy is losing momentum. Investors seem skittish about the bank's exposure to the energy sector.

Compounding the company's woes, the Canadian consumer is overleveraged. Even a small drop in real estate prices could decimate the finances of many households. Fewer mortgages, credit cards, and auto loans means TD's heydays in Canada are over.

That said, the company is well prepared for any slowdown. Since the 2008 financial crisis, TD has beefed up its balance sheet. It has been repeatedly ranked as one of the world's soundest financial institutions.

If you don't buy this stock now, you'll hate yourself later

To be sure, this firm will have its ups and downs, as the economy, oil prices, and interest rates all affect the bottom line. I'm not entirely sure how the company will fare over the next few quarters. But given TD's track record for rewarding shareholders, investors who bank on this stock should be rewarded with growing dividends for many years to come.

If you don't own this company today, you'll definitely be kicking yourself 20 years from now.

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