



Cash in on a Stronger U.S. Dollar With Toronto-Dominion Bank

Description

The headwinds facing the Canadian economy at this time are creating significant consternation among investors and analysts regarding the health of Canada's banking sector. These fears have already triggered a sell-off of Canadian banking stocks that now sees some trading with attractive valuations. Among them is Canada's largest bank, **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). I believe there are a number of positive catalysts that make now the time to invest in the bank.

What's happening?

The stronger U.S. economy and growing concerns about China and the Eurozone have caused the U.S. dollar to surge in value, rallying by 16% over the last six months. This gives Toronto Dominion a distinct advantage over its Canadian peers because it has the largest exposure to the U.S. of any Canadian bank through its U.S. retail banking and wealth management businesses.

These extensive operations make Toronto Dominion the 13th largest bank in the U.S., and it has a significant retail presence in the Eastern U.S., with over 1,300 branches servicing 6.5 million customers. This leaves it well positioned to take advantage of a rapidly recovering U.S. economy that is creating higher employment and salaries, which should create greater demand for credit.

For the fourth quarter 2014, the bank reported record results for its U.S. retail banking operations, with earnings up by 14% when compared to the same period in 2013. This was achieved on the back of strong loan and deposit growth — both having shot up an impressive 8.5% and 5%, respectively, for that period.

Such strong loan growth coupled with a resurgent U.S. dollar certainly bodes well for Toronto Dominion's earnings to continue growing.

In fact, with the bank now obtaining a quarter of its net earnings from its U.S. business, it has a solid advantage over many of its Canadian peers, which are battling to find growth opportunities in a saturated domestic financial services market. It also significantly mitigates the risks posed by a weaker Canadian economy that is set to falter under the impact of the rout in oil prices.

Lower interest rates in Canada are also set to squeeze the net interest margins of Canada's banks, making them less profitable. However, with the Federal Reserve set to increase U.S. interest rates later this year, the net interest margin of Toronto Dominion's U.S. retail banking business should grow, increasing profitability and boosting earnings.

More importantly, Toronto Dominion's history of strong earnings growth has made it one of Canada's top dividend champions, and it has hiked its dividend for the last four straight years. This gives it a sustainable and tasty dividend yield of 3.5% and an impressive compound annual growth rate of 11% over the last 45 years. This is well above the annual average inflation rate for that period, and I expect this growth trajectory to continue.

Going forward

Toronto Dominion is well positioned to take advantage of the strong U.S. economic recovery, which bodes well for earnings growth and further dividend hikes. When this is considered in conjunction with its attractive valuation, including price-to-book and forward price-to-earnings ratios of nine, I believe now is the time for investors to take the plunge.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

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