Dividend Investors: Is Now the Time to Buy the Toronto Dominion Bank?

Description

I hate paying the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) so much in fees, but that's exactly the reason why I love the stock as an investment.

Let me explain.

A few weeks ago, TD sent me a letter. The company was hiking the fees on my chequing account yet again.

If I did not maintain a higher balance, I would be dinged by a new monthly service charge. As if that wasn't bad enough, I now have to pay a $1.25 fee on each transaction.

I promptly called customer service and threatened to take my business elsewhere. But I never followed through. As much as I hate dealing with TD sometimes, switching banks is just too much of a hassle.

So I stay, and the charges keep rising.

One simple trick to get back at your bank

Inactivity fees, teller fees, statement fees.

Every year, it seems like more of our cash ends up in Bay Street coffers. How can we fight back? By buying bank stocks.

You can bet I'm not the only one stuck funneling more money into TD's pockets. In reality, all of that cash is just being transferred to investors. Over the past decade, TD shares have soared over 110% and the company's dividend has more than doubled.

Of course, such outsized returns are unlikely to continue. Yet despite all of the pessimism surrounding the big banks these past few months, there were no signs of trouble in TD's latest quarter.

Last week, the financial giant reported adjusted net income of $2.1 billion, or $1.12 per share—narrowly beating the street's estimates. It also raised its quarterly dividend by 8.5% to 51¢ per share.

The company's Canadian operations are doing far better than expected. Earnings grew 6% from the same time last year, thanks to fewer defaults. The bank also saw a 5% bump in loans growth, driven by residential and business lending.

However, it was TD's U.S. banking business that really stole the show. Profits grew 16% year-over-year across the board, showing strength in auto loans, credit cards, and mortgage lending.

Net interest margins—industry lingo for the difference between what banks pay depositors and what they receive in interest on loans—were also up six basis points quarter-over-quarter.

“Overall, I’m very pleased,” said CEO Bharat Masrani in the company’s conference call. “TD’s earnings of $2.1 billion speak to the strength of our business model, diverse business mix, and organic growth engines.”

These numbers won’t knock your socks off, but given how sour investors were on banks only a few weeks ago, the results were exceptional. For investors, they can rest assured that more dividend hikes will likely follow in the years to come.

TD is not without risks, of course. Revenue growth is likely to be muted. That will keep a tight lid on further share price gains, at least in the short term.

That said, most of these risks are likely already priced in. The stock is off almost 20% since September and now trades at a reasonable multiple relative to its historical average.

Of its peers, TD is also the least exposed to the Canadian economy, particularly western Canada, which is expected to slow in the second half of the year.

One dividend stock to buy and hold forever

Bottom line, with its growing earnings, entrenched market position, and 3.7% dividend yield, TD appears to offer an attractive deal for income investors. What the stock does in the short term is anyone’s guess, but over the long haul, I expect shareholders will be rewarded with a growing stream of income.

At the very least, seeing those dividends land in your account each quarter should make it easier to eat all of those fees.

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Date
2025/07/03
Date Created
2015/03/02
Author

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