3 Reasons to Buy Toronto-Dominion Bank Today

Description

It's amazing just how much can change in less than six months. Last fall, Canadian banks were incredibly popular stocks, and were consistently posting record earnings. In fact, they were widely considered must-have investments.

Nowadays, the story is very different. The plunging oil price has heightened concerns for the Canadian economy, and the housing market still looks overinflated. Making matters worse, the **Royal Bank of Canada** has lowered its benchmark interest rate, further hurting the profitability of Canada's banks.

As a result, the banks' stock prices have languished, and this has created some nice opportunities. On that note, we look at three reasons to buy one of Canada's premier banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

The power of Ontario

The oil plunge is certainly a net negative for Canada's economy. However, some provinces are actually benefiting. One of them is Ontario; the province's exporters are enjoying a lower Canadian dollar. Ontario's drivers are also benefiting from lower gas prices. If you don't believe me, just look at how the province has suffered over the last decade as oil skyrocketed.

When looking at TD's financials, one thing becomes clear: what's good for Ontario is good for TD. To illustrate, 57% of the bank's Canadian loans are in Ontario. This compares to 47% at **Canadian Imperial Bank of Commerce** and 41% at Royal Bank of Canada. So, TD has a nice safety net in case the oil rout worsens.

Rising rates in the USA?

More than a quarter of TD's loans are in the United States, which has been bad news over the past few years. The U.S. banking industry is very competitive, making profits difficult to come by, and low interest rates just add to the pressure.

That said, the U.S. economy has been firing on all cylinders (unlike Canada, it benefits from low oil prices), and the Federal Reserve may raise interest rates this year. This would be very beneficial to TD's bottom line, since those U.S.-based loans could end up earning more income.

A low price and nice dividend

As of this writing, TD is trading at only 13 times earnings, a very reasonable multiple for a company with such a strong track record.

To put this in proper perspective, let's say TD decided to pay out 85% of its net income to shareholders as dividends. Under this scenario, the stock would yield a staggering 6.6%, placing it second on the **S&P/TSX 60**. I'm not saying this will happen any time soon, but these numbers would be very different if TD was an expensive stock.

So, at this point, banks like TD seem very unloved by investors right now, which is a stark contrast from six months ago. I can’t think of a better time to jump in.

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