



Toronto-Dominion Bank: a Quality Dividend Stock With a 4% Yield

Description

Stocks are known to be volatile. Even quality industry leaders such as **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) cannot avoid the volatility. From its high of \$58 per share, Toronto-Dominion has declined to \$51 per share. It's now 12% cheaper within a year. Instead of being concerned, shareholders should think about buying more shares.

No one likes to see their holdings lose value, but if you think about it, it's an unrealized loss. If you don't sell it, you don't lose any money. If the business is intact, then a price decline is actually an opportunity.

In the long term, investors get lower returns if the stock price continues going up and there are little dips. On the other hand, if investors buy quality companies on the dip, the total return increases. You're paying less for more on price dips! Let's explore why you might buy Toronto-Dominion as an investment today.

The business

Toronto-Dominion is headquartered in Toronto, Canada, and it offers a full range of financial products and services, catering to the needs of over 24 million customers worldwide.

The bank aims "to be the better bank." And it has done just that. Otherwise, its revenue wouldn't have increased the most among the Big Five banks on a compound annual growth rate basis in the past five years.

Further, Toronto-Dominion is a top 10 bank in North America, and one of only a few banks globally to be rated Aa1 by Moody's.

The bank focuses on retail earnings because it provides a better return for the risk that's undertaken. Toronto-Dominion has over 80% of its earnings coming from retail.

Its franchise businesses are reputable and provide a growing earnings stream. It focuses on customer-driven products, and is consistently able to reinvest in its competitive advantage. This leads to Toronto-

Dominion's consistently growing dividend payout.

A 4% yield is uncommon

From 1994 to 2014 Toronto-Dominion's dividend increased at an annualized rate of 12%. More recently, in a five-year period, it grew its dividend at an annualized rate of 8.6%. Currently, it yields 4%, which is historically high for the stock. It was an outlier when it yielded over 7% during the financial crisis. In the past five years, its yield has typically oscillated in a mid-range between 3.2-3.6%.

Its 4% yield is sustainable with room to grow as it only pays out 47% of its earnings. Going forward, I expect Toronto-Dominion to grow its earnings at least 7%, so its dividend is likely to grow at that minimum rate as well.

Valuation

Valuation-wise, Toronto-Dominion is priced at the same levels as it was in 2012, according to the price-to-earnings (P/E) and price-to-book ratios. Historically, it traded at a P/E of 12.7, while it trades around 11.5 today, so there's close to a 10% discount in the bank's shares at today's price of about \$51.

Should Foolish investors buy today?

At about \$51 per share, Toronto-Dominion yields 4%. I expect that yield to grow at a minimum rate of 7%, which implies a long-term total return of at least 11%. Additionally, as Warren Buffett would rather buy a great business at fair value rather than a fair business at great value, maybe you would opt to do the same as well because Toronto-Dominion Bank is a great business.

CATEGORY

1. Bank Stocks
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3. Investing

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