Should You Buy Toronto-Dominion Bank for its 3.9% Yield?

Description

One of the top 10 retail-focused North American banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), will report its third-quarter earnings results on August 27.

Priced around $52 per share and yielding 3.9%, the bank has $96.8 billion in market capitalization. It is over 10% off from its 52-week high and 9% above its 52-week low.

Should investors buy its shares around earnings report time? First, let's take a look at Toronto-Dominion Bank's business.

The business

Toronto-Dominion Bank is headquartered in Toronto, Canada, with over 85,000 employees serving customers around the world. Its complete range of financial products and services cater to roughly 24 million customers worldwide through three key business lines: Canadian retail, U.S. retail, and wholesale banking.

Its key businesses are divided into other divisions. For instance, its Canadian retail business consists of TD Canada Trust, Business Banking, TD Wealth, TD Asset Management, and TD Insurance.

Last quarter, Toronto-Dominion Bank brought in more than $7.8 billion of revenue, of which, over 60% came from Canadian retail, 29% came from U.S. retail, and almost 10% came from wholesale banking. In the same period it brought in net income of over $2.2 billion, of which, 63% came from Canadian retail, 26% came from U.S. retail, and almost 11% came from wholesale banking. The U.S. retail business benefited from a stronger U.S. dollar.

Valuation

Historically, it has reached a price-to-earnings ratio (P/E) of 12.5 multiple times, while today's shares are at a P/E of about 11.5. So, the bank shares are discounted by about 9% today.

Dividend

At about $52 per share, Toronto-Dominion Bank yields 3.9%. Its payout ratio of about 47% implies a solid dividend. The bank targets earnings per share to grow by 7-10% over the medium term, so it’s likely to continue growing its dividend on an annual basis by at least at a 7% clip.

Since 1994 the bank has increased its dividend at an annualized rate of 12%. That included the period it froze its dividend in 2009 and 2010 during the Financial Crisis.

It last raised its quarterly dividend in April at an annualized rate of 8.5%. So, if you bought 100 shares, an investment of about $5,200 today, you’d receive at least $51 every three months.

In conclusion

I’m not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Toronto-Dominion Bank could go up or down 3% in one day.

Because Toronto-Dominion Bank shares are slightly discounted today compared with historical multiples, Foolish investors could act cautiously by buying half a position now and finishing off the position after the earnings report.

That is, if you plan to buy $5,000 in the bank, you could buy $2,500 today, and buy more after the earnings report.

Pro earnings report, if the price goes up it means the company is doing better than expected. If not, then you might be able to spend another $2,500 and buy more shares at a lower price.

Other banks such as **Bank of Montreal** and **Royal Bank of Canada** are reporting their earnings results before Toronto-Dominion Bank and could shed some light on how the big Canadian banks are doing.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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