If You Want Safe Dividends, Toronto-Dominion Bank Is a No-Brainer

Description

Finding quality dividends in Canada isn't easy these days. The biggest yields tend to come from companies on shaky ground, and the most reliable payouts are in high demand.

But if you look hard enough, there are dividends that have a decent yield *and* are in no danger of being cut. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is a perfect example.

A closer look at TD's dividend

As of this writing, TD's dividend yields 3.9%. Sure, there are bigger yields out there, including yields from the other Big Five banks. But remember, Government of Canada bonds yield only 1.46%, and TD's dividend is nearly as secure.

There are a few reasons for this. To start, TD pays out slightly less than half its income to shareholders, not unlike the rest of the Big Five. So, even if net income takes a big hit—perhaps due to spiking loan losses—then the dividend will still be very affordable. It's little surprise that no big Canadian bank has cut its dividend since World War II.

Better yet, TD has relatively little exposure to Canada's economic issues. The bank has very few loans outstanding to energy companies, and very little of its business is concentrated in Alberta. Its U.S. branches are well positioned to benefit from low gasoline prices. And its focus on retail banking is an advantage in this environment, too.

Excess capital

Granted, TD has gotten into trouble before. Back in 2002 its loan losses swelled to nearly $3 billion. This was caused mainly by fallout from the technology bubble.

But even if TD were to run into similar trouble today, its dividend would be perfectly safe. The bank has nearly $4 billion in excess capital (assuming it wants to maintain a minimum 9% CET1 capital ratio), easily enough to absorb some bad loans, and the bank's loan standards have tightened considerably since then anyways.

Does this mean you should buy TD stock?

Not necessarily. TD is still the most expensive bank stock (relative to earnings), and it also has the lowest yield. The other Big Five banks may be a little more risky, but also have a lot more upside.

But if you're looking for safe dividends, or if you're considering buying bonds instead, then TD's dividend is simply too good to pass up.

CATEGORY

1. Bank Stocks

2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/22
Date Created
2015/09/17
Author
bensinclair