3 Reasons to Buy Toronto-Dominion Bank Shares for $51

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has long been one of Canada's most popular dividend stocks, and for good reason. But the company has become much less liked over the past year, and its stock price has fallen by roughly 10% during that stretch.

That's created the perfect opportunity to buy shares. We look at three reasons why below.

1. Little exposure to Canada's biggest problems

To be clear, investors have some legitimate concerns about the Canadian banks. The country is technically in recession, mainly due to low oil prices. Consumer debt stands at record levels. And low interest rates threaten to compress margins.

But TD is relatively immune to these problems. Its oil and gas exposure is relatively low, as is its presence in the province of Alberta. The bank's customers in Ontario and Quebec are benefiting from the low Canadian dollar. And the bank actually has more branches in the United States than in Canada anyways. It's no wonder the bank has continued growing earnings, even amid all of these concerns about the Canadian economy.

2. A fantastic track record

Back in 2002, TD had an absolutely horrible year, mainly due to loan losses from technology and telecommunications companies. After the traumatic experience, the bank vowed to change its ways.

And that's exactly what TD did, earning a reputation as the best bank in Canada at controlling risk. Of note, the bank escaped the U.S. financial crisis relatively unscathed. Shareholders have been rewarded as a result; since the beginning of 2003, TD shares are up by more than 200%. No other Big Five bank stock has increased more than 150% over this stretch.

TD's strong risk management practices remain in place today, and this is very significant when considering all of Canada's economic problems. Thus, you should expect loan losses to remain relatively low, even if the other banks run into problems.

3. A cheap price

As of this writing, TD's share price stands at just over $51, equivalent to just over 12 times earnings. By comparison, you would have had to pay roughly 14 times earnings just last year.

Because of this cheap price, TD's dividend yields almost exactly 4%, even though the bank pays less than half of income to shareholders. So, even if TD's net income takes a big hit, the dividend certainly won't be cut, and you'll still earn 4% on your money. It's no wonder the bank has boosted its dividend more than 60 times since 1970 without cutting it once.

TD's dividend also means there's relatively little downside for the stock price. After all, if the dividend yields much more than 4%, then income investors will surely snap up the stock. That should make shareholders feel pretty safe in the meantime.

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