

Why I Remain Bullish on Toronto-Dominion Bank

Description

The outlook for Canada's banking sector remains muted as the sharp collapse in oil prices and slowing economic growth weigh heavily on earnings. While these factors will certainly hamper earnings growth for domestically focused banks such as **Canadian Imperial Bank of Commerce** and **National Bank of Canada**, the more international banks have a great range of levers at their disposal to boost earnings.

One that stands out with the best prospects to grow earnings in the current environment is **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

Now what?

One of Toronto-Dominion's core strengths is its impressive presence in the U.S. and, with the economy south of the border recovering strongly in recent months, this is fast becoming a core growth lever.

You see, Toronto-Dominion is one of the 10 largest banks in the U.S.; it offers the full suite of commercial and retail banking as well as wealth management products and services.

Its U.S. business now contributes almost a third of its total net income, and has experienced strong earnings growth over recent quarters. For Toronto-Dominion's fiscal third quarter, net income from the U.S. retail segment grew by an impressive 13% quarter over quarter and 24% year over year. This solid profit growth can be attributed to growing demand for credit because of a strong U.S. economy that saw the bank experience solid loan and deposit growth.

One of the bank's key weaknesses in the U.S. market, however, has been the low interest rate environment that continues to place pressure on margins. Despite the Fed holding off on a rate rise in September, Fed chief Janet Yellen has indicated that she remains committed to a rate rise at some point in 2015. Any rate rise, no matter how small, will act as a tailwind that will boost the profitability of Toronto-Dominion's U.S. operations.

Toronto-Dominion also recently completed another acquisition in the U.S.; it acquired **Nordstrom Inc.'s** U.S. Visa and private label consumer credit card portfolio. This boosts its presence in the lucrative U.S. credit card market as it acquired around \$2.2 billion in receivables.

Meanwhile, it is worth considering that the bank's U.S. business is not its only growth lever. It also has range of levers at its disposal to grow earnings at home in its Canadian business, which is responsible for 60% of its earnings.

Toronto-Dominion has made a commitment to cost cutting as well as enhancing its suite of products and services through alliances with a range of FinTech companies.

Let's not forget Toronto-Dominion's long history of dividend payments.

The bank has hiked its dividend every year since 2010, and now pays a juicy yet sustainable yield of just under 4%. It is also clear that Toronto-Dominion is capable of sustaining this strong dividend growth because of the ongoing growth of its U.S. business and its strategies aimed at ensuring that its Canadian earnings continue to grow.

So what?

Toronto-Dominion is certainly one of the best of its breed; it offers investors a tantalizing mix of strong potential earnings growth and international exposure. Then you have the dividend that will continue to reward patient investors as they wait for its share price to appreciate, making it a core holding for every portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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