The Top 3 Reasons to Own Toronto-Dominion Bank

Description

The Big Five bank stocks have long been staples in many Canadians' portfolios, and for good reason. The banks face relatively limited competition, and generate big profits as a result. They are good at managing risk, at least by international standards. And they have paid out very consistent dividends.

But more recently the banks have fallen out of favour. We all know why: low oil prices, high consumer debt, low interest rates, the emergence of FinTech companies, and a potential housing bubble.

Yet it would be a mistake to abandon the banks completely. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) in particular should remain part of your portfolio. We look at the top three reasons why below.

1. Still plenty of room for growth

Given all the negativity surrounding these stocks, you would think that Canadian banking earnings are destined for decline. But that's not the way TD sees it.

During its investor day on Thursday, TD outlined various ways it can grow earnings in Canada. It plans to sell more credit cards to individuals and corporations. Demographic trends will help the wealth management business. And there are plenty of opportunities to cut costs.

Importantly, TD has relatively little exposure to the energy sector, and doesn't have much exposure to the province of Alberta either. TD is much more heavily concentrated in Ontario, which is benefiting from a low Canadian dollar.

When putting it all together, TD is expecting 7.5% annual growth for its Canadian retail banking operations, which includes wealth management. And the bank's American business is primed to benefit from increasing interest rates. So, TD is certainly not in decline.

2. Strong risk-management practices

Back in 2002, TD had an absolutely horrible year mainly due to loan losses from the tech bubble. After that traumatic experience, the bank pledged to clean up its act and put a big focus on risk management.

Those efforts have paid off and helped save the bank billions of dollars during the Financial Crisis. Fast forward to today, and TD's strong risk-management practices should help limit any damage from a struggling Canadian economy.

3. An attractive dividend

Let's face it: quality dividends are not easy to find. Stable payouts are in high demand, which often result in low yields. And higher-yielding dividends often come from shaky companies, particularly in the energy sector.

But if you're looking for a stable dividend with a decent yield, TD is a great place to start. Its dividend yields nearly 4%, and this is a payout that has risen more than 60 times since 1970 (without being cut once). And TD still pays out less than half its earnings to shareholders, so even if net income takes a serious hit, the dividend should be safe.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Investing

Date
2025/07/21
Date Created
2015/10/17
Author
bensinclair