3 Reasons to Buy Toronto-Dominion Bank

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is certainly not as popular as it once was. Concerns about the Canadian economy have weighed on all of the Canadian banks, causing TD's shares to flat line over the past 12 months, even as its earnings have continued to grow.

And that has created a nice opportunity to buy TD shares. We take a look at the three key reasons to buy TD below.

1. TD has little exposure to the biggest risks

As we all know, Canada's economic problems mainly centre on the fall in oil prices. But TD has relatively little exposure to oil. As of October 31 the bank had only $3.8 billion of "drawn exposure to oil and gas production and servicing borrowers." That's less than 1% of the bank's non-retail credit outstanding.

TD also has little exposure to energy-producing regions. To illustrate, TD has 3.4 times as many net loans outstanding in Ontario as it does in the Prairies. And, of course, TD has a big presence in the eastern United States, a region that generally benefits from lower oil prices.

To top it all off, TD has a strong focus on retail banking with less focus on commercial lending and capital markets. This focus tends to limit risk and make earnings smoother during difficult times.

2. TD has a strong track record

TD had a horrible year back in 2002, mainly due to loan losses from the tech bubble burst. So from that point on, the bank committed itself to controlling risk. It hasn't looked back.

For example, the bank famously exited the structured products business right before the financial crisis. This move, as well as many others, has helped TD to post solid numbers year after year. It's no surprise that the bank's shares have easily bested the other Big Five bank stocks since 2003.

And now that Canada is in a difficult situation, TD's focus on risk management is a tremendous advantage, one that should help make investors a little calmer.

3. There are a lack of dividend alternatives

No Big Five bank has cut its dividend since World War II, a remarkable achievement considering what has happened since then. Wars, recessions, oil shocks, and interest rate gyrations have all come and gone, and none of these events have forced the banks to reduce their payouts.

And with TD paying less than half of its earnings to shareholders, the odds of a dividend cut are very remote. This makes the bank’s 3.9% yield seem like quite a good deal, especially given how low interest rates are.

Furthermore, if you look at many of the higher-yielding dividend stocks on the TSX, they come from companies facing serious challenges. And if the past year has taught us anything, it’s that dividend cuts are always more likely than they seem.

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
2025/07/20
Date Created
2016/01/15
Author
bensinclair