

3 Reasons Why I Believe Toronto-Dominion Bank Is a Buy

Description

Investors have beaten up bank stocks because there is a belief that the banks lent money to oil companies that are now suffering from incredibly low oil prices. And while that is certainly true to a significant extent, I believe that **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) might be being unfairly targeted.

Here are three reasons why I believe TD Bank is a buy.

Low oil exposure

The first reason I like TD Bank is because it actually has a very small exposure to the oil and gas production/servicing business. Unlike other banks, which have lent out tens of billions of dollars to these companies, TD Bank only has about \$3.8 billion of exposure to the space. To think about it another way, of all the Big Five banks in Canada, TD has the smallest exposure to the market.

What this means is that while oil companies and the banks that service them are suffering, TD is able to focus on its customers and grow its operations in other parts of the financial sector.

U.S. exposure

The second reason has to do with the fact that TD has a sizable presence in the United States. Specifically, it has the bulk of its operation on the east coast, with more branches in the United States than in Canada.

This is good for the bank for three reasons. The first is that the east coast of the United States benefits when oil prices are low, which means that customers can save more or pay down more of their credit card debt. They can also take loans out for businesses or their homes.

The second reason is because the U.S. dollar is strong. When TD Bank brings that money back, revenues and profits are going to be significantly stronger due to the conversion exchange.

Finally, because the Federal Reserve increased interest rates by 0.25%, TD Bank will be able to increase its margins on loans and also invest its excess deposit position in short-term bonds. The higher the interest rate, the more money that TD can make off these excess deposits.

Strong dividend

The final reason I like TD is because of its dividend. TD yields 4.06%, which comes out to \$0.51 per quarter. On top of that, TD has not had to cut its dividend for decades, which means that it is a very secure investment.

With its payout ratio—the amount of its profits that it pays in dividends—under 50%, I don't expect that there will be any concerns about TD being able to continue paying this dividend.

While banks have certainly been getting hammered in the markets due to their exposure to oil and gas, TD Bank is in a great position due to its low exposure to the energy markets, its incredible position in the United States, and the fact that its dividend is both secure and profitable. If you're looking for a bank that will help you sleep at night, TD Bank is definitely one worth considering.

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Date

2025/08/25

Date Created

2016/01/21

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