Investors May Want to Consider Buying Toronto-Dominion Bank

Description

Since the price of oil plummeted, investors have been increasingly concerned about purchasing shares of banks. However, I am of the opinion that **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has been unfairly grouped with other banks and has been stuck in a boring trading pattern.

There are a few reasons why investors may want to consider purchasing shares of the bank.

Oil is not a problem

There's no doubt that the banks that have a lot of loans in the oil and gas industry are affected by the drop in prices. Fortunately, TD is not one of those banks. In reality, TD has the lowest exposure to the oil industry than any other Canadian bank.

The reality is, oil and gas accounts for less than 1% of the total loan book. Even if all of these loans were to go bust, the impact on TD would be relatively minuscule. Yet it's being punished as though it has much more than that.

Strong earnings

At the end of February, TD released its first-quarter 2016 earnings results, and the bank knocked it out of the park like it usually does. Adjusted net earnings were $2.25 billion, an improvement from the $2.12 billion it earned in the same quarter in 2015.

The bank's U.S. retail operations generated net income of $642 million, which was a 20% increase year over year. On top of that, its investment in TD Ameritrade provided increased earnings, generating 21% increase in net income year over year to $109 million.

Its Canadian operations grew 4% year over year to $1.5 billion in net income. While this growth is much slower, it is a good sign considering the price of oil has been in such a flux.

I expect earnings to be even stronger in 2016, in part because there of hundreds of millions of dollars in restricting charge offs. Simply said, with many consumers moving to online banking, the bank is reducing its real estate costs. Therefore, TD expects to see savings of $400 million in 2016, which should push earnings even higher.

Strong, secure, and growing dividend

All of this allows TD to bank a very lucrative and growing dividend. TD recently announced that it was increasing its dividend to $0.55, making the yield a very comfortable 3.95%.

What I like about this dividend is that it has increased at least once a year for the past five years. On top of that, TD's payout ratio is 63%, which I believe is more than safe. So long as there is not a significant drop in earnings, that dividend should keep growing.

One thing to consider is your time of entry. While timing the market is hard, if oil prices start to drop again, the stock will most likely follow because investors are dragging all of the banks down. Therefore, you may be able to get a larger position if you wait for the price to drop. However, my recommendation is to start a position now and then average in as the stock continues to drop.

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
2025/08/24
Date Created
2016/03/30
Author
jaycodon