3 Reasons to Buy Toronto-Dominion Bank Today

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), the second-largest bank in Canada, watched its stock rally about 7% in March. It now sits over 3% higher for the year, and I think this was only the beginning of a sustained rally higher. Let's take a look at three reasons why I think this, so you can determine if you agree and if you should buy the stock today.

1. Its strong Q1 results could support a continued rally

On the morning of February 25, Toronto-Dominion released very strong earnings results for its first quarter ended on January 31, 2016, and its stock has responded by rising over 9% in the weeks since. Here's a quick breakdown of 10 of the most notable statistics from the report compared with the first quarter of fiscal 2015:

1. Adjusted net income increased 5.8% to $2.25 billion
2. Adjusted diluted earnings per share increased 5.4% to $1.18
3. Total revenue increased 13.1% to $8.61 billion
4. Net interest income increased 10.7% to $5.05 billion
5. Non-interest income increased 16.7% to $3.56 billion
6. Total assets increased 8.6% to $1.17 trillion
7. Total deposits increased 9.5% to $736.53 billion
8. Total loans, net of allowance for loan losses, increased 11.4% to $567.03 billion
9. Total assets under management increased 8.7% to $346.73 billion
10. Book value per share increased 13.9% to $35.99

2. Its stock is undervalued

At today's levels, Toronto-Dominion's stock trades at just 11.7 times fiscal 2016's estimated earnings per share of $4.78 and only 11.1 times fiscal 2017's estimated earnings per share of $5.07, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13 and the industry average multiple of 13.1.

With the multiples above and its estimated 7.2% long-term earnings growth rate in mind, I think Toronto-Dominion's stock could consistently command a fair multiple of at least 13, which would place its shares around $62 by the conclusion of fiscal 2016 and around $66 by the conclusion of fiscal 2017, representing upside of more than 10% and 17%, respectively, from today's levels.

3. It has a great dividend

Toronto-Dominion pays a quarterly dividend of $0.55 per share, or $2.20 per share annually, which gives its stock a high and safe yield of about 3.9%.

It is also important to make two notes.

First, Toronto-Dominion has raised its annual dividend payment for five consecutive years, and its recent increases, including its 7.8% hike in February, have it on pace for 2016 to mark the sixth consecutive year with an increase.

Second, the company has a target dividend-payout range of 40-50% of its adjusted net earnings, so I think its consistent growth, including its aforementioned 5.8% year-over-year growth to an adjusted $1.18 per share in its first quarter of fiscal 2016, should allow its streak of annual dividend increases to continue going forward.

Is now the time for you to buy Toronto-Dominion Bank?

Toronto-Dominion Bank is a strong buy, so all Foolish investors should strongly consider establishing long-term positions today.

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