3 Reasons Why Toronto-Dominion Bank Is a Strong Buy

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest bank, and I think its stock is a strong buy today for three primary reasons. Let's take a closer look at these reasons to see if you agree and if you should add it to your portfolio.

1. Its strong financial results could support a higher share price

On May 26, Toronto-Dominion released very strong earnings results for its three- and six-month periods ended on April 30, 2016, and its stock has responded by rising about 2% in the trading sessions since. Here's a quick breakdown of 12 of the most notable statistics from its first half of fiscal 2016 compared with the same period in fiscal 2015:

1. Adjusted net income increased 5.5% to $4.53 billion
2. Adjusted diluted earnings per share increased 5.3% to $2.38
3. Total revenue increased 9.7% to $16.87 billion
4. Net interest income increased 8.6% to $9.93 billion
5. Non-interest income increased 11.4% to $6.94 billion
6. Total assets increased 9.1% to $1.12 trillion
7. Total deposits increased 9.6% to $714.53 billion
8. Total loans, net of allowance for loan losses, increased 9.5% to $553.36 billion
9. Total assets under management increased 3.5% to $343.55 billion
10. Total assets under administration increased 3.4% to $336.33 billion
11. Total equity increased 10.1% to $67.8 billion
12. Book value per share increased 9.7% to $33.89

2. It's trading at inexpensive valuations

Toronto-Dominion's stock currently trades at just 12 times fiscal 2016's estimated earnings per share of $4.79 and only 11.4 times fiscal 2017's estimated earnings per share of $5.07, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 13.1, its five-year average multiple of 12.9, and the industry average multiple of 13.6.

With the multiples above and its estimated 7.6% long-term earnings growth rate in mind, I think Toronto-Dominion's stock could consistently trade at a fair multiple of at least 13, which would place its shares upwards of $62 by the conclusion of fiscal 2016 and around $66 by the conclusion of fiscal 2017, representing upside of more than 7% and 14%, respectively, from today's levels.

3. It has a high dividend and is dividend-growth play

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 3.8%.

It's also important to make the following two notes.

First, Toronto-Dominion has raised its annual dividend payment for five consecutive years, and its recent hikes 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 8% year-over-year increase to $4.61 per share in fiscal 2015 and its aforementioned 5.3% year-over-year increase to $2.38 per share in the first half of fiscal 2016, will allow its streak of annual dividend increases to continue for the foreseeable future.

Is there a place for Toronto-Dominion Bank in your portfolio?

I think Toronto-Dominion Bank is a strong buy, so all Foolish investors that agree should strongly consider buying shares today.

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