Why Toronto-Dominion Bank Is the Best of the Big 5

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one of the better performers of the Big Five Canadian Bank stocks this year and has held up quite well in the past few years, even though there was a technical recession last year. Toronto-Dominion has the largest exposure to the U.S. out of all the Canadian banks, and the management team has a superb risk-management strategy in place that results in a dividend that will hold up even in the worst of economic downturns.

Durable competitive advantage: great risk management

Warren Buffett once said that it's better to invest in a business that has a "moat" or a durable competitive advantage than in one without. One huge advantage that Toronto-Dominion has over its competitors is its fantastic risk-mitigation strategy that allows it to survive the worst of recessions. The company has a very strong balance sheet and lower exposure to commodities compared to its peers, such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Many investors are quite fearful of Canadian banks because of their high exposure to the Canadian housing market, which many pundits believe is hitting bubble territory and may experience a nasty correction sometime in the near future. Banks like Canadian Imperial Bank of Commerce will get hit hardest because of the high exposure to the domestic housing market, while Toronto-Dominion Bank will not get hit quite as hard.

Toronto-Dominion Bank is not overly exposed to the oil industry either, as most domestic focused banks are. The company has about 1% of loans directly related to the crude oil industry and more than 50% of its Canadian mortgage loans are insured against a Canadian housing crash.

It's got a hefty premium over the other banks, but is it worth it?

There's no question that Toronto-Dominion Bank commands a premium over its peers in the Big Five. The stock trades at a 13.7 P/E with a 3.6% dividend yield, which is a higher valuation and a lower yield than some of its peers; for example, Canadian Imperial Bank of Commerce is cheap with a P/E of 9.77 and a fat 4.8% dividend yield.

Although Toronto-Dominion Bank looks too expensive in comparison, it actually looks to be the better bargain when considering the risks involved with each investment.

Toronto-Dominion Bank has the superior risk-management strategy and a higher exposure to the U.S., which has been more stable than the Canadian market given the huge fluctuations of commodity prices. This exposure to the U.S. is especially important when the loonie heads south and would be a great hedge for an income investor who is looking to weather the volatile Canadian market.

Is it still a buy at current levels, even after the rally?

Toronto-Dominion Bank has a P/B of 1.7, which is in line with its historical P/B, so I would not say the company is a steal by any means. But if you're an income investor looking for the safest dividend in the market, then you can do no wrong by picking up shares of Toronto-Dominion Bank.

Sleep well at night knowing that if a housing crash happens, your investment will be safe and you'll have a dividend coming in on a regular basis.

CATEGORY

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
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