Is Toronto-Dominion Bank the Right Stock for Your Portfolio?

Description

Bank stocks have been on a tear due to talks about Donald Trump issuing a rollback of the Dodd-Frank Act: a bill passed after the Financial Crisis to prevent that situation from happening again. And while **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is not affected by that rollback as much as other banks, it has reached all-time highs with Trump as president, rising from a about $60 a share to a little over $68.

But what investors need to determine is if the future is ripe enough to justify the premium you'll be paying for the bank.

Let's dive into the bank's numbers.

Looking at 2016 as a whole, the bank had reported net income of $8.936 billion — up from $8.024 billion in 2015. And looking at just the fourth quarter, its reported net income was $2.303 billion — up from $1.839 billion in Q4 2015. A big reason for this growth is because TD continues to see tremendous growth in its U.S. banking division.

Its U.S. Retail division, not including its investment in **TD Ameritrade Holding Corp.** (NYSE:AMTD), generated net income of $608 million in Q4, which is up 25% from 2015. Its earnings would have been even higher, but TD Ameritrade only contributed $93 million — down from $109 million in Q4 2015. Fortunately, TD Ameritrade is expected to contribute $111 million in Q1 2017, so I expect this U.S. division to continue generating significant income.

And the bank continues to expand its holdings in the United States. With TD Ameritrade, it paid US$4 billion for Scottrade, another retail brokerage firm. TD Ameritrade is acquiring the brokerage assets, which will help the company save US$450 million annually (not to mention the increase in commissions). And TD Bank is acquiring Scottrade's banking assets, which have a tangible book value of US$41.3 billion.

All of this points to the real reason why Toronto-Dominion Bank is gearing up to have a very strong 2017. So much of the bank's assets are in the United States and, through smart acquisitions, it continues to expand that footprint. In particular, the U.S. Federal Reserve is planning to continue increasing interest rates over the next couple of years, which will help the bank increase its spread between what it pays depositors and what it earns in interest.

I've been focusing a lot on its U.S. holdings, but its Canadian operation held its own. In the fourth quarter, it had net income of $1.502 billion, which is up from $1.496 billion in Q4 2015. While it's not a very significant increase, a strong base is necessary for the bank to invest in its expansion in the United States.

Now we'll talk about the cost of the stock.

Because so many investors feel safe with the bank (likely due to its U.S. holdings), the stock price has been pushed high enough that it is “only” yielding 3.22%, or $0.55 per quarter. And with management expected to release Q1 2017 earnings in the beginning of March, it’s quite likely that the dividend will be increased again.

Nevertheless, it is the most expensive of the Big Five, and should the economy in either Canada or the United States have a hiccup, that could send shares tumbling, even temporarily. But as Warren Buffett would say, “it’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” And Toronto-Dominion is a wonderful company.

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