Evaluating Canada's Banks: Toronto-Dominion Bank

Description

Since the beginning of 2017, shareholders of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have not done very well. Shares have declined by 1.3% as of this past Friday's close, and thanks to the dividend, the total return has been in the black.

For long-term shareholders, however, the company has made many very wealthy. The five- and 10-year price returns are 63% and 78%, respectively. The company, which is Canada's second-largest bank by market capitalization, is also the one with the biggest footprint south of the 49th parallel.

Currently trading at a trailing price-to-earnings (P/E) multiple of almost 13 times earnings, investors entering this name at current prices will receive a dividend yield of almost 3.75% and the potential for a raise as time moves forward.

Going back to fiscal 2013, the company paid dividends of $1.62 per share, which grew steadily to a total of $2.16 during the 2016 fiscal year. The compounded annual growth rate (CAGR) of the dividend over this period of time was 10%. Coming into fiscal 2017, the dividends paid for the first half of the year were $1.15 per share, which is higher than the previous year, given the five cent increase in the past quarter.

When investors consider the growth in earnings over the same period, the bottom line's CAGR from fiscal 2013 to 2016 was 10.1%. The growth in earnings per share and the dividend payments moved almost in lockstep. The dividend-payout ratio in 2016 remained very consistent at 46.2%. For low-risk investors, this is what we strive to find!

The company was not successful in reducing the total share count. Instead, over the same four-year period, total shares outstanding increased by approximately 1%. Given the increase in shares outstanding, the earnings per share may just have been a few pennies higher had the company been more aggressive in trying to keep the share count consistent.

Starting in 2013, the return on equity for Toronto-Dominion Bank has been very good. The company made a profit of $6.535 billion and ended the year with shareholders' equity of $49.875 billion. The return on equity (calculated as 6.535/49.875) was 13.1%. Moving to fiscal 2016, the company made a profit of $8.821 billion, but the total amount of equity increased to $72.564. Given this higher number, the return on equity has now decreased to 12.1%.

As a result of the current situation at Toronto-Dominion Bank, shareholders may want to give the company a very thorough look as the expansion into the United States, which continues to unfold, offers a lot of potential. Barring another major expansion, the company is now holding a significant amount of equity which may be better used in either a share buyback or in the form of dividend increases.

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Date
2025/08/20
Date Created
2017/07/28
Author
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