

Toronto-Dominion Bank: 1st out of the Gate in a Canadian Bank Rebound?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) shares are up ~9% over the past month thanks in part to its strong Q3 2017 results and positive sentiment following Trump's announcement of a 20% corporate tax rate, which may come to fruition next year. When combined with an increasing interest rate environment, U.S. banks are simply must-owns right now.

For Canadians, TD Bank is the best way to obtain exposure to U.S. banking without venturing into exchanges south of the border. Although TD Bank is a Canadian company, it actually has more branches in the U.S., and because of this exposure, TD Bank is worth every penny of its premium valuation. I think TD Bank deserves to trade at a larger premium to its peers in the Big Six, all of which don't have U.S. retail businesses at the same level as TD Bank.

The fantastic Q3 2017 triggered a rally

TD Bank clocked in an adjusted EPS of \$1.51 for Q3 2017, up 19% year over year, beating the Street consensus of \$1.36. Domestic and U.S. retail banking saw year-over-year earnings growth of 13% and 15%, respectively, thanks in part to higher net interest margins and lower than expected credit losses.

I believe the post-earnings surge was warranted, and I think TD Bank could be headed for a sustained rally to much higher levels as the general public gradually forgets about the short-term concerns, which brought TD Bank's valuation gap between its peers to a low.

Major tailwinds likely to propel shares much higher over the long term

TD Bank trades at a premium to its peers in the Big Six for a reason. It has a very strong management team and a superior earnings stream, which is less volatile and of higher quality compared to many other Canadian banks.

TD Bank is set to be one of the biggest beneficiaries once U.S. corporate tax rates are cut, and I believe its dividend will grow by the largest magnitude relative to other Canadian banks over the next five years.

Shares of TD Bank currently trade at a 13.3 price-to-earnings multiple and a 1.9 price-to-book multiple, both of which are slightly higher than the company's five-year historical average multiples of 13 and 1.8, respectively. Shares of TD Bank now trade at a substantial premium to its peers, but I still think they're a great buy today.

It appears that a Canadian bank rebound has arrived, and TD Bank is the first out of the gate. If you're looking for a great long-term dividend-growth king with major tailwinds, look no further than TD Bank. It's a great bet, even though shares have gotten a bit pricey over the last month.

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