

RRSP Investors: Should You Own Toronto-Dominion Bank?

Description

Canadian investors are searching for top-quality stocks to hold inside their self-directed RRSP portfolios.

Let's take a look at **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) to see if it deserves to be on your buy list.

Profit machine

TD consistently delivers impressive results for its investors. The company reported fiscal Q3 2017 profits of close to \$2.8 billion, which isn't too shabby for three months of operations.

Most of the earnings come from retail banking activities in Canada, with the segment contributing \$1.725 billion in net income in the latest quarter. That's good for a 14% increase over the same period last year.

Strong U.S. presence

TD has worked hard over the past decade to build a large U.S. business, which primarily focuses on the east coast, running from Maine right down to Florida. The company now has more branches south of the border than it does in Canada and continues to add tuck-in acquisitions.

Fiscal Q3 year-over-year net income from the American operations rose 11%, or 14% when converted to Canadian dollars. Deposits increased 7%, and loan volumes increased 5% compared to the same period last year.

The U.S. retail banking business and TD Ameritrade contributed more than 30% of net income in the most recent quarter. This diversification in the revenue base provides a nice hedge against any weakness that might occur in the Canadian economy.

Risk outlook

Rising interest rates could put pressure on Canadians who are carrying too much debt, and there is some concern that house prices could tumble as a result. A total meltdown in the housing market would certainly be negative for TD and its peers, and investors have to keep this in mind when considering the banks.

TD's Canadian residential mortgage portfolio is large, but it can ride out a reasonable drop in house prices. Insured mortgages represent 44% of the loans, and the loan-to-value ratio on the rest is 53%. This means things would have to get pretty bad before TD incurred worrisome losses.

Most analysts think a gradual pullback is the most likely outcome for Canadian house prices.

Reliable dividends

TD has a strong track record of increasing its quarterly payout, with a compound annual dividend-growth rate of 10% over the past two decades.

In the medium term, TD's management team expects the company to generate earnings-per-share growth of 7-10%, so continued dividend hikes should be in the cards. The current distribution provides a yield of 3.4%.

Should you buy?

At 13.3 times trailing earnings, TD isn't on sale, but waiting for a great entry point in this stock often results in missed dividends and foregone upside opportunities in the share price.

If you are looking for a reliable dividend pick to buy and hold for decades, TD is worth considering for your RRSP portfolio. Any meaningful dip in the stock should be viewed as an opportunity to add to an existing position.

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Date

2025/08/26

Date Created

2017/10/07

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