

Toronto-Dominion Bank: A Smart Dividend Play?

Description

For investors that are hungry for consistent and reliable income, there are few options that are quite as lucrative as the banks and, in particular, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

Why TD? It's got exposure to both Canada and the United States, providing it with the opportunity to grow earnings consistently without having to take on too much risk.

And it's growing earnings. In Q3 2017, TD delivered \$2.865 billion in adjusted net income compared to \$2.416 billion in the previous year. And year to date, its adjusted net income is over \$1 billion higher than the previous year at \$7.984 billion.

Its Canadian division accounted for \$1.725 billion of that net income, up 14% from the previous year thanks to a boost in revenue and a drop in insurance claims. TD's U.S. division had net income of \$901 million, up from \$788 million.

Going forward, I expect to see more growth in earnings thanks to rising interest rates. The U.S. Fed is talking about boosting rates again, which would provide a greater spread for the bank between what they pay for savers and what they charge for interest. Canada is also starting to increase its rates.

We can already see this playing out. In the third quarter, the company's net interest margin for Canadian retail was 2.84%, which is up from 2.81% in the previous quarter and 2.79% a year prior. They're incremental increases, but they can make a huge difference when you're talking billions in loans.

TD's provision for credit losses (PCL) is on the way down. After the nine months ended in 2016, the company had \$1.782 billion in PCL. Compare that to the \$1.638 billion in 2017, and it appears that the risk is reducing for this bank. Earnings are up and provisions are down. That's a solid play for the bank.

What about the housing market? Isn't that a risk?

I'm not terribly concerned about the housing market. While I do expect there to be a drop in housing prices, I think this will be more of a soft landing versus a sudden bubble bursting. This isn't the latest 2000s, when the market had systemic problems. TD has taken appropriate steps to prevent against major harm happening to it.

TD has 56% of its \$261 billion mortgage portfolio insured. That's up quite a bit from the 49% of a \$252 billion portfolio.

TD is a great investment, specifically for those investors looking for income. It currently yields 3.35%, which is good for \$0.60 per quarter. Thanks to a strong business, its payout ratio is only 40-50%, so it would take a serious drop in earnings for TD to cut the dividend.

On the contrary, I expect TD to continue increasing the dividend. The dividend has been increased by low double digits on an annual basis for two decades. With margins increasing and risk relatively low, I

expect only good things from TD in the short to medium term when it comes to income. And because I don't see a major housing crisis on the horizon, this could be the perfect income play for those that need a strong yield.

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Date

2025/07/01

Date Created

2017/10/16

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