

Toronto-Dominion Bank: An Incredible Dividend-Growth King You Should Pay Up for Today

Description

Based on traditional valuation metrics, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is Canada's priciest bank, but it's also arguably Canada's best bank with its solid U.S. presence, above-average risk-management strategy, and less volatile earnings stream.

Although the stock has always traded at a hefty premium to its peers in the Big Five banking scene, I've noted that TD Bank shares actually offered the [best value](#) at certain points over the past year when you take into account that value that you'll receive for the price you'll end up paying.

When it comes to banks, it pays dividends to pay up for quality

As a true value investor, you can't just pick the cheapest stock. You need to consider a company's growth runway and potential medium-term catalysts that could propel that stock higher or drive a higher magnitude of dividend growth over the next few years. After you have a gauge of how well positioned a company is to grow, you need to consider what will happen in the event of a sudden economic downturn. With growing concerns over "cracks" in the Canadian housing market, many short sellers have claimed that some banks could be hit with a plunge of at least 50%.

After analyzing a company's growth prospects and risk profile, then it's time to have a look at the price you'll be paying. In many cases, it's worthwhile to pay up for higher quality, especially if you're looking to minimize your downside risk over the long haul. TD Bank isn't a cheap bank, but it isn't cheap for a reason.

The company has a promising U.S. business — a much-needed growth outlet since the Canadian economy is more sensitive to commodity price fluctuations. In addition, TD Bank is better prepared to deal with a Canadian housing downturn that many pundits have been calling for over the last few years. If a downturn does end up happening, TD Bank will still get hit on the chin, but it'll be a lot quicker to return to its feet compared to some of its more aggressive peers (see the rapid rebound after the Financial Crisis).

TD Bank is known as a conservative lender compared to its peers, and that means less earnings volatility and fewer loan losses. A lack of volatility implies a premium, but I believe it's a premium that's worthy of every penny, especially for conservative income investors who are wary of the overheated market, which may be slated for a pullback.

Is TD Bank's low ROE a cause for concern?

TD Bank has an ROE of 14.83%, which is quite solid, but it's lower than many of its peers. While it may seem TD Bank is doing a poor job at getting the biggest bang for its buck, it appears that management has subscribed to the notion of "you need to pay up for quality."

Like the stock, which trades at a premium, management has paid up for its own acquisitions. As TD Bank continues to beef up its U.S. presence, investors should expect management to continue to pay a premium multiple for what I believe are premium assets in a red-hot market.

[U.S. assets aren't cheap](#), as we've seen with **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) and its pricey acquisition of PrivateBancorp, where it needed to sweeten the pot twice before reaching a deal worth US\$4.9 billion — a price many investors were wary of.

High-quality U.S. growth assets don't come cheap, but they're well worth it, as I believe they'll allow TD Bank to obtain superior earnings growth over its peers.

Q4 2017 earnings miss produces a better entry point for long-term investors

TD Bank clocked in an adjusted EPS of \$1.36 and a total revenue of \$9.27 billion, up 11.5% and 6%, respectively, on a year-over-year basis. Analysts were expecting an EPS of \$1.39, so naturally, the stock fell following the earnings report. TD Bank's wholesale banking segment results saw declines on the top and bottom line, which caused many investors to hit the sell button.

Should a larger pullback result in the coming weeks, I think investors should strongly consider initiating or adding a position today. Over the next five years, I see TD Bank growing its earnings and dividend by the largest amount relative to its Big Five peers.

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Author

joefrenette

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