Toronto-Dominion Bank: A Top Dividend-Growth Stock for Your TFSA to Start 2018?

Description

Canadian savers are about to get an extra $5,500 in Tax-Free Savings Account (TFSA) contribution room.

This will push the maximum to $57,500 for anyone who was at least 18 years old in 2009, when the TFSA was launched.

The TFSA is an attractive option for investors of all ages. Retirees can use the TFSA to earn tax-free income to supplement their pensions payments, while young investors can take advantage of the vehicle to begin building a retirement fund.

With interest rates at such low levels, many Canadian investors are turning to dividend stocks to boost their returns.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting pick.

Reliable income

TD is often cited as the safest of the big banks due to its heavy focus on retail banking. The personal and commercial banking segment tends to be more stable than other activities, such as capital markets, which can see earnings fluctuate significantly from one quarter to the next.

Most people are familiar with TD's Canadian business, but the bank has invested heavily in building a U.S. presence. In fact, TD operates more branches south of the border than it does in the home country. The U.S. banking group provides a hedge against weakness in the Canadian economy, and earnings can get a nice boost when the American dollar strengthens against the loonie.

Housing risk

Some investors are concerned the Canadian banks could be hit by a downturn in the Canadian housing market. It’s true that a total meltdown would be negative, but most analysts predict a gradual decline in house prices.

TD held $265 billion in Canadian residential mortgages at the end of its latest quarter. Insured loans represent 42% of the portfolio, and the loan-to-value ratio on the rest is 50%. This means house prices would have to fall significantly before TD saw a material impact.

Dividend growth

The bank has a strong track record of dividend growth and is also returning cash to investors through share buybacks. In the past quarter alone, TD repurchased eight million shares.

Over the past 20 years, TD’s compound annual dividend-growth rate is about 10%. Management is targeting 7-10% annual earnings per share (EPS) growth, so dividend increases should continue at a healthy clip.

In fiscal 2018, adjusted EPS increased 14% compare to the previous year, so the bank is capable of exceeding its guidance.

Should you buy?

As interest rates rise, some borrowers will find themselves in a difficult situation and TD could see defaults increase, but higher rates are generally a net positive for the banks.

TD should continue to deliver solid results in the coming years, and the dividend is about as safe as you are going to find in the Canadian market.

The stock isn’t cheap, but TD should continue to be a solid buy-and-hold pick for dividend investors.

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