Toronto-Dominion Bank: Time to Buy the Dip?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has returned some of its gains in recent weeks, and investors who missed the rally are wondering whether this is the right time to start a position in the stock.

Let's take a look at the current situation to see whether TD deserves to be in your portfolio.

Earnings

TD reported solid fiscal 2017 results. Net income came in at $10.5 billion, up 18% compared to fiscal 2016. Adjusted net income rose 14%.

All three of the company's segments delivered solid numbers, with Canadian Retail earnings up 9%, U.S. Retail earnings up 12%, and Wholesale earnings up 13%.

TD is widely viewed as the safest of the big Canadian banks due to its reliance on retail operations for the majority of its revenue and earnings. This segment, which includes personal and commercial banking activities, tends to be less volatile than other sectors, including capital markets activities that make up a larger part of the earnings picture for TD's peers.

TD's Wholesale banking activities generate less than 10% of the company's earnings.

U.S. operations

TD is primarily known for its Canadian business, but the bank actually has more branches south of the border than it does in its home country. The American operations generated $3.3 billion of the $10.5 billion in 2017 profits, so investors get a nice U.S. hedge against any potential weakness in the Canadian economy.

Management has slowed down its acquisition pace in the United States, but is still finding tuck-in deals.

Dividends

TD has a strong track record of dividend growth. In fact, the compound annual dividend growth rate over the past 20 years is about 10%.

Investors should see the distribution continue to increase at a steady rate. TD expects to deliver earnings per share growth of 7-10% over the medium term. As we saw with the 2017 results, the company has the ability to exceed its guidance.

At the time of writing, the stock provides a yield of 3.3%.

Risks

Some pundits say a housing correction could hammer the Canadian banks. It's true that a total meltdown would be negative, but most analysts predict a gradual pullback, and TD's mortgage portfolio is capable of riding out a downturn.

Insured loans represent 42% of the portfolio; the loan-to-value ratio on the remainder is 50%, so there would have to be a significant drop in house prices before TD takes a material hit.

Should you buy?

TD is down to $72 per share from the 2017 high of $75 it reached a few weeks ago. That's not a screaming sell-off, but trying to time an entry point in the stock has historically resulted in missed upside and foregone dividends, so any pullback should be seen as a gift.

Investors who are looking to add a top-tier name to their buy-and-hold portfolios might want to consider TD today.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/07/05
Date Created
2017/12/18
Author
aswalker