



Is Toronto-Dominion Bank Right for Your RRSP?

Description

Canadians are searching for top-quality stocks to put in their RRSP portfolios, and the country's big [banks](#) are often the first place people turn.

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

U.S. exposure

TD is primarily known for its Canadian operations, but the company also has a large U.S. presence running from Maine right down the east coast to Florida. In fact, TD has more branches south of the border than it does in the home country.

The U.S. operations provide more than 30% of TD's income, providing a nice hedge against weakness in Canada.

Conservative business

Overall, TD is widely viewed as the safest pick among the big Canadian banks due to its heavy focus on retail banking. Some of the other banks have large operations dealing with capital markets activities. In good times, these segments can generate strong profits, but they tend to be more volatile.

TD also has limited exposure to the Canadian [oil and gas](#) sector.

Risks

Some investors are concerned rising interest rates could put mortgage holders in a tight spot in the next few years and trigger a downturn in Canadian house prices.

A total crash would certainly be negative for TD and its peers, but most analysts predict a gradual pullback, and TD's mortgage portfolio is capable of riding out a rough patch.

As of fiscal Q4 2017, 42% of the portfolio was insured, and the loan-to-value ratio on the uninsured

mortgages was 50%.

Rising rates tend to be a net benefit for the banks.

Dividends

TD has a compound annual dividend-growth rate of about 10% over the past 20 years, and investors should see steady dividend hikes continue in step with earnings growth.

Management is targeting annual earnings-per-share growth of 7-10% over the medium term, but the bank tends to report results that are above that range. For example, adjusted earnings per share for 2017 came in 14% higher than the previous year.

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

Returns

Long-term shareholders of this stock have enjoyed some nice returns. A \$10,000 investment in TD two decades ago would be worth about \$90,000 today with the dividends reinvested.

Should you buy?

TD should continue to be a strong buy-and-hold pick for RRSP investors who are looking for top-quality dividend-growth stocks to anchor their portfolios.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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