



Is Toronto-Dominion Bank Canada's Best Bank Stock?

Description

Although there are five major banks in Canada, there can only be one top bank. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is, arguably, the best of the Big Five for a multitude of reasons and is worthy of investment.

There are three reasons why I believe investors should be looking at this bank.

Strong U.S. earnings

Across the board, the company is growing incredibly well. Canadian Retail net income was \$1.757 billion, an increase of 12% with revenue up by 7%. Loan and deposit volume is on the rise, so this growth is expected to continue.

But it's the bank's investments south of the border that are appealing. The U.S. Retail division reported \$1.024 billion in adjusted net income, an increase of 28% compared to the same quarter last year. The bulk of that growth came from its retail properties — \$850 million, an increase of 23% — but its ownership stake in **TD Ameritrade Holding Corp.** ([NASDAQ:AMTD](#)) contributed \$174 million in adjusted earnings.

The bank has been making moves to expand. [TD Bank and Ameritrade bought](#) Scottrade Bank. In total, the two firms paid \$4 billion in total. This added tangible book value of US\$41.3 billion to the books. I imagine TD Bank will continue to pick up smart assets, and it continues to open new branches, which will help it scale even more.

And lest we forget, the U.S. government passed a sweeping tax bill, which will boost earnings for the bank in the coming quarters.

Interest

Interest rates are increasing, and that makes the bank [more appealing](#). A bank's business is very simple. People deposit money into savings accounts (or CDs) and the bank pays them interest for this. The bank then uses that money to lend to people, charging even more interest.

As interest rates increase, the rates paid on savings accounts and CDs don't increase at the same pace that the interest that banks charge borrowers does. Therefore, the spread between what the banks pay depositors and what they charge increases. With interest rates continuing to increase in the United States, I expect earnings to follow closely.

Dividends

The final reason I like TD Bank is because of its dividend. The bank is a great dividend payer and has been paying and increasing it since 2011 (having taken a break due to the financial crisis). That growth has made many investors very happy for being dedicated holders.

During the quarterly results, management announced it was increasing the dividend. Investors can expect an increase from \$0.60 to \$0.67 per quarter, which is good for an 11.7% increase. A double-digit dividend increase is incredible, but it's also not surprising.

The dividend-payout ratio, on an adjusted basis, actually dropped from 43.9% to 38.3% quarter over quarter and from 41.2% to 38.3% year over year. With the payout ratio so low, it was obvious that the company needed to increase the yield.

The bank is a solid company with incredible exposure in the U.S. market. With interest rates rising, I expect earnings to follow, which should allow the company to continue boosting the dividend.

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