RRSP Investors: Sleep Well With This Top Dividend Stock

Description

Canadian savers are being reminded the stock market can be volatile.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting pick today for RRSP investors who simply want to buy a stock and forget about it for two or three decades.

Conservative business units

TD is widely viewed as the safest of the Canadian banks due to its heavy focus on retail banking activities. The company has limited exposure to the Canadian energy sector, and doesn't rely as much as some of its peers on capital markets activities, which can be volatile.

U.S. presence

Most people are familiar with TD's Canadian operations, but the company has built a large presence in the United States, with operations running down the east coast from Maine right to Florida. In fact, TD operates more branches south of the border than it does in its home country.

Earnings growth

The entire company generated Fiscal 2017 net income of $10.5 billion, representing an increase of 18% on a per-share basis compared to 2016. Canadian retail earnings rose 9%, U.S. retail earnings increased 12%, and the company's wholesale banking group saw earnings jump 13% on a year-over-year basis.

The U.S. division, which includes the retail operations and TD's part of TD Ameritrade, generated more than 30% of net income. This is important for investors who might be concerned about a possible downturn in the Canadian economy.

Risks

One potential threat is the Canadian housing market. If interest rates rise too quickly, some homeowners could be forced to sell. If a large number of properties hit the market in a short period, house prices could fall more than expected.

A total meltdown in the housing market would prove negative for TD and its peers, but that isn't a likely scenario, and TD's mortgage portfolio is capable of riding out a rough patch. The company finished 2017 with $265 billion in mortgage loans, of which 42% was insured and the loan-to-value ratio on the rest was 50%. This means that house prices would have to fall significantly before TD sees a material hit.

Dividends and share buybacks

TD does a good job of sharing profits with investors through dividends and share buybacks. The compound annual dividend growth rate over the past 20 years is above 10%.

Management is targeting earnings per share growth of at least 7% over the medium term, and investors should see the dividend rise in step. The company tends to be conservative with its earnings outlook, as we saw with the 2017 results.

Impressive returns

Long-term investors have enjoyed some impressive returns with this stock. A $10,000 investment in TD just 20 years ago would be worth more than $85,000 today with the dividends reinvested.

Should you buy?

TD isn't a cheap stock at 13.5 times trailing earnings, but the bank rarely goes on sale, and trying to time the market on this company often results in missed dividends and lost upside opportunity.

If you have some cash sitting on the sidelines and are looking for a buy-and-forget pick for your RRSP, TD deserves to be on your radar.

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