TFSA Investors: Should Toronto-Dominion Bank Be a Top Pick?

Description

Canadian investors are using their Tax Free Savings Account (TFSA) to hold top-quality dividend stocks.

This is a wise move for retirees as well as those who are using the TFSA as part of their retirement planning.

Why?

Retirees and other income investors can use the TFSA to avoid paying tax on any distributions they collect. This means all the dividends can go straight into their pockets.

Younger investors looking to save some cash for the golden years can reinvest the full value of the dividends in new shares and build a nice portfolio over the course of a few decades. When the time comes to cash out, all the capital gains are also tax-free.

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

Earnings

TD reported adjusted fiscal Q1 2018 net income of $2.95 billion. That’s right; the company booked nearly a cool billion per month in profit for the quarter, representing a 17% gain on a per-share basis compared to the same period last year.

Operations

TD is widely viewed as the safest of the Canadian banks due to its heavy focus on retail banking activities. The company is primarily known for the Canadian operations, but TD has spent billions over the past decade or so to build a substantial U.S. business.

In fact, TD now has more branches south of the border than it does in the home country. The U.S. group, which also includes TD’s part of TD Ameritrade, contributed $952 million in net income in the first quarter.

The American business provides a nice hedge against any potential downturn in the Canadian economy.

Risk

Rising interest rates could force some homeowners to sell their properties when the time comes to renew their mortgages. If this happens on a large scale, property prices would drop, and that could have an impact on the banks.

A total meltdown would certainly be negative, but a flattening or gradual decline in average prices across the country is a more likely outcome in the next few years.

TD's Canadian residential mortgage portfolio at the end of Q1 was $267 billion, with insured mortgages representing 41% of the loans. The loan-to-value ratio on the uninsured mortgages was 51%. This means house prices would have to fall considerably before TD takes a material hit.

Overall, rising interest rates tend to be good for the banks.

Dividends

TD raised its dividend by 12% earlier this year, and investors have enjoyed a compound annual dividend-growth rate of better than 10% over the past two decades.

At the time of writing, the stock yields 3.5%.

Should you buy?

TD remains a top pick for income investors focused on reliable, growing distributions. The stock is also an attractive choice for buy-and-hold investors looking to build a retirement portfolio.

At 14 times trailing 12-month earnings, TD isn't exactly on sale, but you get a high-quality name, you can buy and forget it for decades.

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