Toronto-Dominion Bank (TSX:TD): Is This Stock a Top Pick to Launch Your TFSA?

Description

Young Canadians are searching for ways to set some serious cash aside for their retirement.

In the past, there wasn't as much of a concern, as most people secured good full-time jobs with generous pensions plans right out of college or university. In addition, houses were more affordable and the steep rise in prices over the past 20 years means the family home has become a retirement safety net.

Today, full-time jobs with great pensions are harder to find for new grads, and home prices are at a point where relying on the house to generate wealth might not work out the way it has for the older GenX crowd and the Boomers.

Fortunately, young Canadians have other options to help them build a comfortable retirement fund. One popular strategy involves buying top-quality dividend-growth stocks inside a TFSA and using the dividends to purchase additional shares. This takes advantage of a powerful compounding process that can turn a modest initial investment into a substantial sum over time.

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 fiscal Q2 2018 adjusted net income of $3.06 billion. That's right, the bank makes about $1 billion per month in profit.

TD is primarily known for its Canadian operations, and the Canadian retail banking group produces the largest part of the company's profits, but TD also has a large business in the United States.

In fact, the company has spent billions to build the American operations and now has more branches south of the border than it does in Canada. The U.S. retail banking segment contributed $1.05 billion in adjusted fiscal Q2 net income.

Dividends

TD has a compound annual dividend growth rate of better than 10% over the past two decades and already raised the payout by 11.7% in 2018.

Investors should see the trend continue in step with rising earnings per share (EPS). TD's guidance is for medium-term EPS growth of 7-10%, but the company tends to be conservative in the outlook.

The current payout provides a yield of 3.5%.

Risks

Rising interest rates could start to cool down mortgage growth and even put some homeowners in a situation where they might have to sell their properties when the time comes to renew their loans. As a result, some pundits are concerned the banks could be in for a rough ride.

A total meltdown in house prices would certainly be negative, but most analysts see a soft landing and TD's mortgage portfolio is capable of riding out a downturn. The loan-to-value ratio on the uninsured mortgages is 52%.

Overall, higher interest rates tend to be positive for the banks.

Returns

A $10,000 investment in TD just 20 years ago would be worth about $90,000 today with the dividends reinvested.

Should you buy?

The U.S. operations provide a nice hedge against a potential downturn in Canada, and TD is widely viewed as the safest pick of the Canadian banks. If you're looking for a market leader to start a buy-and-hold dividend-focused TFSA retirement portfolio, TD deserves to be on your radar.

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