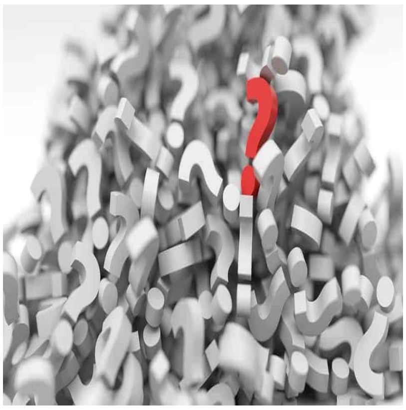

Is Toronto-Dominion Bank (TSX:TD) Canada's Best Bank Stock?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has been having a great run these past 12 months. Trading at $66 on September 6 on 2017, it's now hovering around $79 at the time of writing. That's a 19% return–fantastic for a mature company like TD. And even after these gains, the stock trades at just 13.5 times earnings!

But can TD stock keep delivering steady returns to investors?

I'll start by looking at the underlying company.

Market position

TD–like all of Canada's big banks–is a very solid company. A big part of the reason is the nature of Canadian banking. Canada's banking sector is not as competitive its U.S. counterpart, which gives the "Big Five" banks an unusual level of security. In the late 2000s recession, several large U.S. banks filed for Chapter 11 bankruptcy, but not one of Canada's banks suffered a similar fate.

The safety of the Canadian market doesn't stop Canadian banks from entering the U.S., however. Many Canadian banks are growing and expanding into America–with TD being one of the strongest performers in this area. In Q3, TD saw a solid 12% increase in earnings, driven by 6.5% growth in its U.S. retail banking business. The fact that TD is successfully expanding U.S. operations is encouraging because big banks like TD have only limited options for growing sales within Canada.

Financial performance

TD has strong financial performance by almost every metric. It has a profit margin of around 30% and an ROE of 14%. Earnings grew 12.7% year-over-year in the most recent quarter. The company's cash holdings are worth more than its total debt. And revenue has grown steadily (if not at a breakneck pace) in all of the past four quarters.

When it comes to the company's financial performance, it's hard to find a bad thing to say about TD.

Valuation

Despite TD’s solid financials and steady growth, the stock appears to be undervalued. The stock’s P/E ratio for the trailing 12-month period is 13.57, which is solid for any company, but fantastic considering that this company is delivering double-digit earnings growth. The company’s PEG ratio is 1.69, which is again indicates a solid value. The price-to-book ratio (2.02) is a little higher than other Canadian bank stocks, but this probably reflects the fact that TD is seeing stronger growth than its peers.

And finally, TD pays a dividend of about $0.67 per quarter, up from $0.47 per quarter in October of 2017. At the time of this writing, the dividend payout gave a yield of 3.40%–not too shabby. And with management’s history of raising the dividend by 10% annually, you can expect that yield to increase if you buy and hold.

All in all, it’s hard to find a better bank stock than TD. It’s a solid play by value and growth metrics that also offers double-digit dividend growth. A perfect RRSP pick.

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