3 Things You'll Love About This Dividend Stock

Description

If you're a conservative investor, you may be looking for quality dividend stocks for your long-term portfolio. Right now, considering the Big Five Canadian banks is a good idea, as their valuations have come off.

In particular, I'd like to bring your attention to **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which should serve well as a core holding. Here are three things you'll love about TD Bank.

TD Bank delivers stable and consistent returns

TD Bank's retail-focused business model is lower risk and offers stable and consistent earnings growth. Specifically, it generates about 92% of its earnings from its retail segment (58% Canadian retail and 34% U.S. retail) and 8% from its wholesale segment.

From fiscal 2009-2018, the bank delivered earnings-per-share growth of about 10.3% per year on average. This supported the blue chip stock to deliver total returns of nearly 12% per year, despite the fact that the stock is trading at a slight discount from its normal long-term price-to-earnings ratio (P/E).

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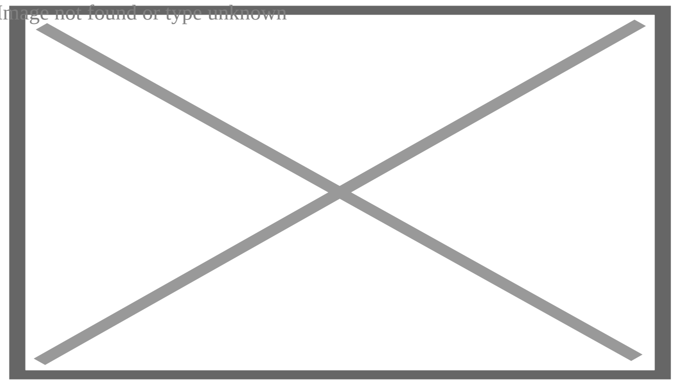

Most important, an investment in TD stock has generally been a stable ride. Yahoo Finance indicates that on the TSX, TD stock had a recent beta of 0.86, which represents lower volatility compared to the market.

Notably, in the last recession triggered by a financial crisis, TD Bank's adjusted earnings per share dropped 15% in fiscal 2008. However, they fully recovered in two years' time. No wonder the quality bank has shown a strong ability to increase its dividend over time.

TD Bank increases its dividend

TD Bank stock increased its dividend per share by about 8.8% from fiscal 2009-2018. This was a decent growth rate given that the bank kept the dividend per share the same in fiscal 2010 as the prior year as the economies were recovering from the financial crisis at the time.

The bank always maintains a nice margin of safety for its dividend. Its fiscal 2018 payout ratio was under 42% based on adjusted earnings and under 45% based on diluted GAAP earnings.

Currently, it offers a 3.84% yield, but in less than three months' time, shareholders can expect another dividend increase, likely in the range of 7-12%.

Get a discount for your buck

Another thing you'll love about TD Bank now is that the stock is discounted by about 12% from its long-term normal P/E. At $69.75 per share as of writing, it trades at a P/E of about 11.5, while the company is estimated to increase its earnings per share by about 7.5-12.2% per year for the next three to five years.

Investor takeaway

It's a good time to start accumulating shares of TD Bank. **Thomson Reuters** has a 12-month mean target of $85.50 per share on the stock, which represents nearly 23% near-term upside potential.

If the price appreciation materializes, it will mean very good returns from a conservative, blue chip holding. Then again, we're not looking to take profit anytime soon, as TD Bank is an excellent core holding that will continue paying increasing dividends for many years to come.

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