Should Toronto-Dominion Bank (TSX:TD) Stock Be on Your TFSA Buy List?

Description

The **TSX Index** is at its lowest point in more than two years, and the broad-based pullback has sent some of Canada's top stocks to levels that are stirring up interest among savvy TFSA investors.

Let's take a look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) to see if it deserves to be in your portfolio today.

Balanced earnings

TD is best known for its Canadian operations; while the home country still generates the bulk of the company's profits, the U.S. division is becoming more important to the overall mix.

TD went through an aggressive acquisition spree for about a decade that saw the company invest billions of dollars to build up its American retail presence that extends from Maine down the U.S. east coast to Florida. Management has said the company is now confident it has the scale it needs to be a major player in the market, and is primarily focused on organic growth south of the border.

The investments appear to be paying off quite handsomely. In the latest earnings report, TD's U.S. group, which includes the retail operations and the company's share of TD Ameritrade, contributed 34% of fiscal 2018 earnings. Adjusted net income in the U.S. operations increased 40% in Canadian dollar terms in fiscal Q4 compared to the same period last year.

What about housing risks?

In Canada, the housing market is holding up well amid a sharp rise in interest rates in the past year. New rules aimed at keeping prices in check are making it harder for some mortgage holders to switch banks, which bodes well for TD, given its large mortgage portfolio.

A sharp decline in house prices would be negative, but the likely outcome is a gradual softening over the next few years. As long a employment conditions remain strong, homeowners should be able to keep making their payments.

Dividend growth

The company is targeting medium-term earnings growth of 7-10%. TD normally outperforms the guidance. As a result, dividends should continue to increase at a steady rate. TD has raised the payout by a compound annual rate of better than 11% over the past 20 year. Investors who buy the stock today can pick up a 3.9% yield.

Value

At the time of writing TD trades at $68.50 per share, which is a reasonable 11.4 times trailing 12-month earnings. The stock was close to $80 in September, and things have not changed much in the company's overall business outlook.

Should you buy?

Long-term holders of the stock know that dips have historically turned out to be good buying opportunities. This doesn't mean we won't see more weakness in the near term, but buy-and-hold TFSA investors might want to start nibbling while the stock is out of favour.

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