A Generational Opportunity to Be Had With Toronto-Dominion Bank (TSX:TD) Stock?

Description

If you're like most investors who are fed up with Jay Powell's overly hawkish non-data-dependent interest rate hike schedule, you may want to consider hedging your bets with some of Canada's beaten-up banks, many of which are slated to benefit from higher net interest margins (NIMs) — the difference between the interest income a bank receives and the amount paid to its lenders — that come with higher rates both at home and south of the border.

"Fed up" with the Fed

On Wednesday, the Fed hiked the U.S. key rate, as many expected, causing both the markets and the loonie to tumble in lockstep. Chairman Powell then proceeded to forecast another two rate hikes scheduled for 2019 rather than backing away from his "autopilot" rate-hike schedule for a more data-dependent "one-and-wait" schedule that would have been a breath of fresh air for a market that's on the verge of experiencing the worst December since the Great Depression.

There's no question that Powell is aggressively tightening the interest rate switch, and assuming he doesn't blow-up the global economy, quality blue-chip banks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) may turn out to be a generational buy for long-term buy-and-hold-forever investors.

The top performer gets punished

TD Bank was a huge winner in the last round of quarterly earnings releases for the big banks. For many of the other big banks, there were noticeable dents in the armour, but TD Bank was one of the few names that are firing on all cylinders. Investors don't seem to care, however, as TD Bank has been battered just as badly as its less-than-stellar peers (like **Bank of Montreal**) that reported relatively weak third-quarter results in comparison.

Bank of Montreal is poised for a drastic slowdown in 2019, yet its stock has fallen to a similar magnitude as TD Bank since the last round of quarterly results. TD Bank scored over 17% ROE in

2018, EPS numbers are flying, and management is maintaining its guidance for 7-10% in EPS growth for 2019, despite the vast amount of macro uncertainties that could undoubtedly be a huge drag for all businesses.

At the time of writing, TD Bank trades at 9.9 times next year's expected earnings, which is the cheapest the stock has been in recent memory. A single-digit forward P/E multiple for a premium name like TD Bank, I think, is ridiculous, especially since TD Bank is coming off one of the strongest quarters relative to its peers.

Foolish takeaway on TD Bank stock

Even as Jay Powell crashes the stock market, I still think TD Bank is a strong buy right here (after its 14% drop), because you're getting a 4% dividend yield (over 21% higher than TD Bank's five-year historical average yield) and double-digit dividend hikes over the next few years to help further dampen the volatility. Moreover, TD Bank looks best positioned to be the first bank roaring out of the gate when it comes time to rebound.

Who knows? President Trump may replace Powell in favour of a dove. If that happens, the recession risk will fall, and the bottom could be just a few percentage points away, causing the timely TD Bank discount to vanish as shares correct upwards.

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Date
2025/08/23
Date Created

2018/12/21
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