5 Reasons Why Toronto-Dominion Bank (TSX:TD) Is a Buy for Your TFSA This January

Description

Any one of Canada's beaten-up Big Six banks is a fantastic way to spend your $6,000 in TFSA funds this January. And while you couldn't possibly go wrong by nibbling on each of them on the recent decline, investors may find that it's more worthwhile to place a larger weighting on the best-valued bank at this point.

As we head into January, I believe the timeliest bet is, by far, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), Canada's most American and most premier bank, whose stock is severely oversold.

Without further ado, here are three reasons why I like TD Bank above its peers after the recent October-December slide that saw the name get hammered as if there were something dire going on behind the scenes.

TD Bank killed it in 2018

TD Bank was a standout winner in the last round of quarterly results released by Canada's big banks, but nonetheless, the stock got hammered, as investors threw in the towel on geopolitical worries, which trumped the significant strides made by TD Bank over the past year.

"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," I'd said in a previous piece.

Well positioned to continue to thrive in 2019, despite macro uncertainties

Many Big Six banks expect to see a drastic slowdown to loan growth numbers in conjunction with the economic slowdown. Of all the Canadian banks, TD Bank looks to be the train with the most momentum heading into 2019, and because of this, I suspect the coming slowdown won't be enough to stop the premium bank from chugging along.

Management is sticking with its original guidance (albeit on the lower end). The bank continues to grow its domestic mortgage book; with an impressive U.S. foundation (TD Ameritrade and the U.S. retail segment), it's likely that TD Bank will continue to post impressive numbers, as analysts downgrade all bank names across the board.

The dividend is a thing of beauty

Now yielding 4%, TD Bank's dividend may not seem impressive relative to its +5%-yielding Big Six peers. When you consider the magnitude of dividend growth over the next 10 years, however, it becomes more apparent that the dividend has the farthest room to run for long-term thinkers who are willing to sacrifice a bit of yield today for a higher long-term dividend CAGR.

The stock is the cheapest it's been in recent memory for no good reason!

The stock trades at a 9.7 forward P/E, a 1.7 P/B, and a 3.2 P/S, all of which are lower than the company's five-year historical average multiples of 13.3, 1.9, and 3.4, respectively. Given TD Bank's impressive U.S. growth foundation, I see no reason why the stock should command a single-digit P/E on next year's expected earnings.

The bank averaged 7.4% and 12.6% in annual top-line growth and EPS, respectively, over the last three years. And it's this magnitude of growth that's a major reason why TD Bank will likely continue to post double-digit dividend-growth numbers moving forward.

A big upside correction possible for 2019

With unsustainable undervaluation comes the potential for a sharp upside correction. TD Bank has no reason to be punished by investors, and as the dust settles in the new year, I suspect the stock could rebound in a big way.

Fool contributor Andrew Button thinks that TD Bank stock could double if U.S. retail continues growing, a major recession doesn't occur, and the housing market recovers.

Personally, I think TD Bank stock doubling in a year is completely out of the question, even if all three of Button's requirements end up happening in the new year. So, investors shouldn't look to TD Bank stock as some sort of quick "double," because it's not going to happen in a single year.

What investors can expect out of TD Bank is a potential jump to $85 — a 26% increase from today's levels — over the next year should the buyers' strike draw to a close. Further, long-term investors can expect to collect a consistently growing dividend that'll increase every single year.

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