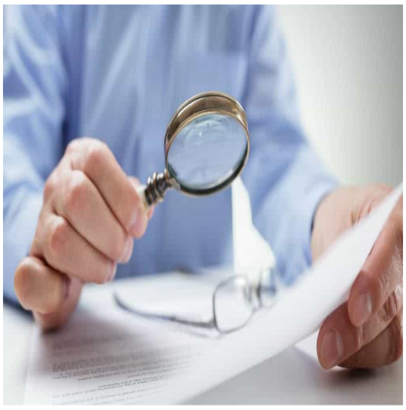

2 Reasons Toronto-Dominion Bank (TSX:TD) Stock Isn't a Buy (Yet)

Description

Canada's banking sector is relatively stable compared to its southern counterparts. While American banks face a major crisis every couple decades or so, Canadian banks have been untouched by a severe meltdown since 1839. That's a century and a half of stability that makes banking stocks an attractive bunch for investors.

One of the most attractive of the lot is banking giant **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). By assets, TD is the largest bank in Canada, one of the 10 largest in North America and the 26th largest in the world. Its 85,000 employees serve over 22 million clients across the globe.

That makes TD less exposed to the local Canadian economy and more aligned with the North American macro economy. As a multinational banking giant, the bank is in a special league of cross-border financial behemoths like **Citigroup** and **HSBC**. In fact, U.S. retail banking is already 28% of the business and is expanding rapidly.

The U.S. business is growing at 44% every year. At this pace, it's not hard to imagine the US operations being as large as the Canadian business within a few years. Meanwhile, its securities business has been expanding in emerging markets like India, which bodes well for future global growth.

For long-term, income-seeking shareholders, the stock has delivered stellar returns. Since 1998, the dividends have been relatively stable at low single digits and grown 11% compounded annually. The total return has been 14% compounded annually over the past 10 years.

With its long track record, stable dividend growth, and excellent credit quality, why shouldn't an investor snap up the stock? In a word: valuation.

TD stock is down with the rest of the market, which is 15% off its all-time high of $80. Despite this, the stock trades at a price-to-book (PB) ratio of 1.67 and provides a dividend yield of 3.9%, while banking giants like **Bank of America Corporation** trade at a PB of 1.04 and **Bank of Montreal** provides a yield of 4.37%.

Even if you take the growth perspective, the stock seems fairly valued at best. I believe the dividend growth rate will be lower than the historic 11% simply due to the law of large numbers. The bank's earnings grew by just 8.3% over the past 12 months, which implies a price-to-earnings-growth (PEG) ratio of 1.4.

For comparison, **Wells Fargo,** Warren Buffett's favourite banking stock**,** trades at a PEG of 0.84.

Bottom line

TD is an excellent banking stock with a lot of potential. It's well diversified, has great credit quality, and has managed to deliver tremendous wealth to shareholders in the past. There's no reason why this can't continue in the future.

However, the growth rate in the future is unlikely to be as high as it's been since 1998. Taking the PEG and PB ratio into account, I believe the stock is fairly valued. Income-seeking investors should look for a better entry point with a higher dividend yield this year, especially with the growing worry of a recession on the horizon.

TD is a good buy right now, but it could be a great buy if the price were any lower.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/09/11
Date Created
2019/01/10
Author
vraisinghani