

How High Could Toronto-Dominion Bank (TSX:TD) Stock Go in 2019?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is one of Canada's best-regarded bank stocks. Although the stock ended 2018 down 8.7%, it still beat the TSX, which fell 11.6%. Over a five-year period, TD Bank stock has returned 47%, which is more than triple the **S&P/TSX Composite Index**' performance in the same period. Factor in [dividends](#) and TD bank outperforms even more.

For a stock with such strong long-term gains, it's natural to ask, "How high will it go this year?" There are several approaches we can take to answer that question.

The target price approach

One straightforward approach to valuing TSX shares is to look at analyst target prices. Analysts at banks and other financial institutions use sophisticated models to arrive at stock target prices, which "smart money" relies on to decide what to buy, hold, and sell. The average target price for TD based on analysts tracked by the *Wall Street Journal* was \$73—just \$0.26 above the stock's price at the time of writing — not exactly a frothy return. However, target prices tend to be based on short-term time frames, no more than a few quarters into the future. To get a sense of where TD will be by the end of the year, we need to dig deeper.

The past performance approach

Another way to get a sense of where TD will be in the future is to look at its past returns. Although past performance doesn't necessarily indicate future performance, there is a slight correlation. TD bank has a five- year CAGR of 8.10% plus dividends. If the stock performs the same in 2019, then we would expect it to be at \$78.76 by year's end. Throw dividends into the equation and you've got a solid return of about 11%. However, a major earnings surprise could easily cause TD to over or underperform its typical return. To see whether any of those are on the horizon, we need to look at fundamentals.

The fundamental approach

TD Bank's fundamentals are excellent. The stock has been growing revenue at about 9% a year and earnings at about 10% while generating a 14.6% ROE. The company has \$60 billion in shareholder equity, which results in \$40.5 in book value per share and a 1.8 price-to-book ratio. The company's earnings growth and low payout ratio ensure its ability to keep up its dividends, while its overall financial health ensures that no major crises are on the horizon. Based on these factors, TD Bank stock should continue rising for the foreseeable future.

The dividend approach

One final approach to valuing TD bank's stock is through looking at its dividend. For blue chip stocks, dividends can play a factor in price. The higher a stock's yield, the more attractive it becomes to buy

and hold investors, so ever-rising payouts can drive prices higher. TD Bank's stock yields about 3.7%, and the payout has been growing at 10% a year. This is another factor pointing toward TD bank's stock price increasing about 8-10% this year. A price somewhere in the [\\$80 range](#) therefore looks reasonable.

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