



Toronto-Dominion Bank (TSX:TD) May Have the Best Dividend on the TSX Index

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is one of the more premier banks in Canada thanks to its lower volatility retail earnings stream, its huge U.S. presence, and its risk-averse management team. The bank has always traded at a slight premium relative to its peers in the space, and although this premium may be seen as a poor value by Canadians who would rather score a cheaper price and a higher yield, I believe longer-term investors have myriad reasons to prefer TD Bank over the rest of the batch.

As Warren Buffett once said, “Price is what you pay; value is what you get.” And although TD Bank has the highest price of admission for any Canadian bank, given its superior qualities, the seemingly high sticker price may actually be a bargain when you consider the quality of the merchandise you’re getting.

The most underrated part of TD Bank stock is the dividend. TD Bank has the lowest dividend yield of all the Big Six bank stocks at just 3.47%, but I believe it’s also the strongest dividend with the most room for growth over the next decade and beyond. And although income-oriented investors have a strong preference for higher yields when it comes to any of their holdings (especially the Canadian banks), I believe longer-term investors are doing themselves a massive disservice by passing on TD Bank just because any five of the other Big Six alternatives have more generous upfront distributions.

While you certainly can’t go wrong by owning any of Canada’s bank stocks for the long term, younger investors who don’t need the yield today can surrender a bit of it up front to receive a heck of a lot more by the time they’re retired. You see, TD Bank is one of the few Dividend Aristocrats that can sustain double-digit percentage dividend hikes through thick and thin.

As we witnessed during the Financial Crisis, TD Bank had its bathing suit on when the tides went out on the financial sector. This was a time when liquidity was a problem for a select few other banks that were sub-optimally capitalized with minimal preparation for the occurrence of a black swan event. As a result, TD Bank was one of the first financial stocks to roar back when the market hit a bottom. If you left shares alone, you continued to be rewarded from TD Bank’s generous dividend, which was unscathed by the downturn.

Given the concerns over Canada's frothy housing market, some pundits believe that the Canadian banks could be in for another doozy. TD Bank doesn't have the lowest exposure to Canada's frothy housing market, but what it does have is a relatively conservative book of loans that won't be as harshly impacted as some of TD Bank's Big Six peers. Despite TD Bank's mortgage exposure, loan losses will likely be a heck of a lot lower than other Canadian banks because of TD Bank's prudent lending practices.

Moreover, TD Bank has a meaningful growth outlet in the U.S., a significant stake in the discount brokerage scene, and many low-volatility businesses that'll help keep TD Bank's head above water should the housing tides rise and drown out the other swimmers.

So, although TD Bank has the smallest dividend, over the next 10 years, I believe the dividend will grow by an amount such that the yield based on the original invested principal will become the largest relative to higher yield Canadian banks who have a head start. TD Bank keeps on flying, and as we witnessed in the third quarter, the bank continued to post strong results despite the slowdown that negatively affected its peers.

Buy TD Bank for the dividend and its top-notch growth potential. The stock seems expensive, but it's not when you consider the quality of what you're getting.

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