Income Investors: Should You Buy Toronto-Dominion Bank (TSX:TD) After Its Dividend Hike?

Description

Toronto Dominion Bank's (TSX:TD)(NYSE:TD) Q1 2019 earnings were heavily impacted by the economic uncertainty prevalent towards the end of last year. Precarious geopolitical factors and volatile equity markets made for a difficult environment. While TD did not come out of it unscathed – missing analyst estimate by some margin – the Toronto-based financial institution recently treated investors to a dividend hike. Should income investors bite?

Why TD's earnings missed analyst estimates

Despite poor market conditions and lower client activity, TD managed to increase revenues year over year. The company's top line even beat analysts' estimates. Revenues increased by almost 7% compared to the previous year's first quarter, while net interest income increased by almost 8%. But TD did not perform well across the board.

The company's wholesale banking division – which provides capital market products to institutions – was a bit of a letdown. Wholesale banking total revenue decreased by 34% year over year, net interest income decreased by 47%, and non-interest income decreased by 27%. Furthermore, $278 million in net income turned into a net loss of $17 million.

Is this result significant?

As market conditions were difficult during the second half of the year, it's hardly surprising that TD's wholesale banking segment suffered. The fall in equity markets may have pushed some to consider switching to debt instruments instead, but rising interest rates make some debt securities less popular among investors. However, wholesale banking is TD's smallest business segment by revenue, and typically accounts for less than 10% of the company's earnings. TD's other segments helped keep earnings afloat.

It is also likely that TD's wholesale banking division will rebound this year. Equity markets have been doing much better, TD's stock price has increased by about 14% since it flirted with its 52-week low in late December. On the other hand, Canadian retail – TD's largest segment by revenue – performed better than the corresponding period of the previous fiscal year. Net interest income and total revenue both grew by about 8%. U.S. retail revenue increased by almost 16%, while total revenue grew by about 12% year over year.

Why TD is a top dividend stock

TD increased its dividends by 10% after its earnings release. The company currently offers a dividend yield of 3.95%, which is good compared to its peers. TD's current payout ratio sits just under 45%, which means the company can afford even more dividend hikes.

As an added bonus, the company's stock is currently attractive, trading at about 10 times its future earnings. As TD's Canadian retail and U.S. retail keep on growing as they have over the past few quarters, the company's wholesale banking segment should rebound. Now might be a good time to invest in TD bank.

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