Is Toronto-Dominion Bank (TSX:TD) Stock a Safe Buy?

Description

Equity markets continue to serve up surprises.

At the end of 2018, it looked like we were headed for a major crash, yet four months later the stock markets have tested new all-time highs. The extent of the 2019 rally caught most people off guard, and investors should expect to see another dip in the near term, given the size of the run-up.

In preparation for the next pullback, investors are trying to figure out which stocks might be attractive picks for their portfolios.

Let's take a look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) to see if it deserves to be on your buy list in the current environment.

Bank uncertainty

All the headlines pointing out big short positions in the Canadian banks or predictions of a 20% sell-off for the sector might make investors think twice about buying shares of the country's top financial institutions.

One concern that regularly comes up is the level of debt being carried by the average Canadian. The amount of money Canadians owe as a percentage of their disposable income is near a record high, and this has the potential to cause the banks some grief if defaults escalate, especially in the housing market.

In the case of TD, the mortgage portfolio was $281 billion at the end of fiscal Q1 2019. That sounds a bit scary, but 34% of the portfolio is insured and the loan-to-value ratio on the uninsured loans is 53%. As a result, house prices would have to fall significantly before TD has to worry about meaningful losses.

Government efforts to cool off the rate of price increases in overheated markets appear to be working. At the same time, mortgage rates are starting to pull back after a surge caused by two years of interest rate increases. The end result is that fewer new buyers are taking on dangerous levels of housing debt and those that already have mortgages should see more favourable renewal rates. Overall, this should reduce the risk of a crash in the residential property market.

U.S. business

TD has a large U.S. business that provides a nice hedge against any potential trouble in Canada. The unemployment rate in the United States is at its lowest level in decades, and while an inverted yield curve in the bond market has sparked recession fears, TD should see the good times continue.

The strengthening U.S. dollar against the loonie also provides a decent boost to earnings when the American profits are converted to Canadian dollars.

Dividends

TD has a great track record of dividend growth, and that should continue in line with expected annual earnings-per-share gains of 7-10% over the medium term. The current payout provides a yield of 3.9%.

Should you buy TD?

The stock has gone through some volatility in the past year, and investors should probably expect more near-term swings. A 20% move in a matter of months wouldn’t be a surprise, but it also shouldn’t be feared. TD traded for $80 last September. By late December, it was down to $65. Investors who had the courage to buy at that point are sitting on some nice gains. At the time of writing, TD trades at $76.

TD is a solid company with a balanced revenue stream. Based on the long-term performance and the earnings-growth expectations, any meaningful short-term dip in the stock should be viewed as a buying opportunity for investors who plan to own TD stock for the long haul.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

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. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/03
Date Created
2019/05/06
Author
aswalker