Why Toronto-Dominion Bank (TSX:TD) Stock Is Still a Strong Buy

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock tends to outperform its peers and the market. Despite popping 2% after reporting its fiscal second-quarter results, TD stock is still a strong buy.

Why TD stock rose after reporting earnings

After reporting its fiscal Q2 2019 results on Thursday, TD stock rose 2.2%. TD Bank did markedly better than it did in the first quarter, which indicates that the first-quarter lackluster results were likely a short-term phenomenon.

For the quarter, TD Bank reported adjusted earnings-per-share growth of 8% over the same period in the prior year, a profound improvement from the 0.6% growth of fiscal Q1 over the same period in the prior year.

The highlight goes to TD Bank’s U.S. Retail segment, which saw adjusted net income growth of 20% (15% in U.S. dollars) to $1.26 billion (US$948 billion) against the same quarter in the prior year.

Its Wholesale business also witnessed a rebound to profitability from a small loss in the first quarter, resulting in net income of $221 million for the quarter.

TD Bank's recent results

For the first half of the fiscal year, TD Bank saw healthy revenue growth of 7.2%, while adjusted diluted earnings per share increased by 4.4% to $3.32. There was an obvious drag on the bottom line from the first-quarter results.

TD Bank's financial position remains strong. At the end of Q2, it had total assets of more than $1.3 trillion (up 5.6% year over year), total deposits of $875 billion (up 5.5% year over year), total loans of $663 billion (up 6.7% year over year), and total equity of $84.9 billion (up 10.7% year over year). Additionally, the bank's common equity tier 1 capital ratio was solid at 12% (up 200 basis points year over year).

Why TD stock is still a strong buy

TD is a quality stock that offers outperforming returns and a safe, growing dividend. At about $75.50 per share as of writing, it's still slightly undervalued trading at a blended price-to-earnings ratio of about 11.3 compared to a long-term normalized multiple of 12.1.

Although the growth may be slower this year, the bank expects longer-term growth of 7-10%; combined with its yield of 3.9% at writing, TD stock can deliver long-term returns of about 11-14% per year. These estimated returns are excellent for a quality stock like TD.

This year, TD's payout ratio is estimated to be about 43%. So, it's reasonable to expect dividend growth that could be slightly higher than its actual earnings growth assuming that the bank were willing to steadily expand its payout ratio towards 50%, which would align with its big Canadian peers.

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kayng