Should You Buy TD Bank (TSX:TD) Stock Today?

Description

All of Canada's Big Five banks have reported second-quarter earnings. It wasn't a great showing for Canada's banks, as all but one missed earnings estimates. The lone outlier was **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which beat on both the top and bottom lines. It continues to re-affirm itself as Canada's top bank.

At the centre of the mixed earnings seasons has been greater provision for loan losses — a fancy term for bad debts. Provision for loan losses have been on the rise, and the trend continued in the second quarter. A rise in bad debts leads to lower earnings. On an adjusted basis, most of the Big Five narrowly missed or grew earnings in the low single digits. TD Bank was one of only two that grew earnings by more than 5%. It delivered 8% adjusted earnings growth, topping the group.

With that in mind, should investors buy TD Bank's stock today? Yes. Here's why.

Strong performance

In the second quarter, TD Bank topped earnings estimates by $0.07 per share and revenue by $770 million. Earnings and revenue grew by approximately 8% over the second quarter of 2018. The company showed growth at home, Canadian Retail (+2%), and abroad, U.S. Retail (+20%). It is clear that what has set the bank apart is the company's U.S. operations. For years, the company has been making acquisitions and establishing itself as a premier North American banking entity. The foundations set years ago are paying significant dividends.

The company's strong performance south of the border has led to outsized returns. Year to date, its stock price is up 12.36%, which is second only to **Bank of Montreal**. Looking further out, its stock has peer-leading returns over the past two, five and 10-year periods.

Analysts also have higher growth expectations for TD Bank. On average, they estimate 7% average annual earnings growth over the next five years. This is tops among the Big Five. Finally, you can't talk about Canada's banks without mentioning the dividend. TD Bank is the only one to average double-digit dividend growth over the past few years. Combined with one of the lowest payout ratios in the industry, expect strong dividend growth to continue.

Cheap valuations

The best part about TD Bank is current valuation. It is trading at a 10% discount to historical averages — the first time it has been this cheap since 2011. The discount won’t last long. Canada’s Big Five banks have always returned to trade in line with historical averages. Thanks to recent weakness, investors can also accumulate shares at a time when its dividend yield is above historical average.

Foolish takeaway

For those in it for the long term, it is the perfect opportunity to build a position in Canada’s best bank. You can sit comfortably knowing that you are in good hands. The company has only missed earnings estimates three times in five years. No bank has a better track record.

TD Bank remains a best-in-class stock, has the best growth rates, and is expected to grow dividends at a faster pace than anyone else. Is TD Bank a buy? You bet it is.

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mlitalien