



Banking Bonanza: Why TD Bank's (TSX:TD) 4% Yield Will Keep Growing

Description

Do you want to lock in a 4% yield on a quality stock that has been raising its dividend by about 11% per year?

If so, it pays to take a look at **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

TD Bank isn't necessarily Canada's highest-yielding bank stock. However, when you factor in dividends, capital gains and dividend increases, it has delivered the highest total return in recent years.

If you'd invested \$10,000 in TD Bank stock in 1998, you'd have over \$100,000 in the bank today—and that's not even counting dividends. With dividends reinvested, the figure grows even higher.

Speaking of dividends: not only is TD's 4% yield high, it's very likely to continue growing over the years. To understand why that is, we need to look at TD's geographic diversification.

Geographic diversification

TD Bank is not only Canada's second largest retail bank, but it's also the eighth largest bank in the U.S.

Yes, that's right: thanks to its massive presence in East Coast markets like New York City, TD Bank is now among the largest players in U.S. retail banking. And, growing at 29% year-over-year, it's getting larger each and every year.

The U.S. is a massive market for Canadian banks, one where even established players can grow by high double digits year over year. TD, having barely started to crack West Coast U.S. markets, still has tons of room to grow in that country. It also owns a huge stake of **TD Ameritrade**, which grew earnings at 93% year over year in its most recent quarter. With these two earnings drivers under its belt, it's no surprise that TD is beating all of its big five peers in terms of growth.

The wholesale banking turnaround

It's all well and good to say that TD Bank has a strong U.S. Retail business, but it's quite another to say that it's a strong business overall. In its next-to-last quarter, TD's overall fundamentals were called into question when its whole banking division posted a [\\$17 million net loss](#). At the time, it was an alarming loss, which contributed to TD's lacklustre bottom-line growth in the quarter.

Since then, TD's wholesale banking unit has [returned to profitability](#), posting \$221 million in net income. While this figure was still down slightly from the same quarter a year before, it was a massive improvement from the prior quarter.

An undervalued stock

A final point worth mentioning about TD Bank is that its stock is very cheap at the moment, trading at just 12 times earnings and 1.73 times book value. Granted, there are cheaper banking stocks out there, but TD has a solid combination of value and growth. This is one of the reasons why I expect TD's 4% yield to increase over time; although the stock will continue to rise, the dividend payout will rise slightly more.

Regardless of what happens to TD's stock price, its yield on cost will rise as long as management keeps the dividend increases coming.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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

Date

2025/09/18

Date Created

2019/06/11

Author

andrewbutton

default watermark

default watermark