



## This Canadian Banking Giant Is a Stock to Buy in June and Hold Forever

### Description

Financials have been one of the best-performing sectors of the Canadian stock market over the last decade. This has been driven by an impressive performance by the Big Five banks, which appear to have been able to do no wrong over that period. Despite this strong performance however, their stock has remained flat or even declined over the last year as concerns over emerging headwinds weigh on their outlook.

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) has remained flat over the last year, while Canada's most international institution **Bank of Nova Scotia**, also known as Scotiabank, has plunged by 7%. This has created an opportunity for investors seeking to boost their exposure to a top-quality bank that remains a top buy and hold stock that can deliver value and pay regularly growing dividends.

### The outlook is not as poor as believed

For almost a decade, Canada's banks have been a [favoured target](#) for U.S. hedge funds and traders believing that a weak economy, heavily indebted households, a red-hot housing market and low-quality mortgages will cause a banking meltdown. While the latest rationale is focused more on a deterioration in credit quality rather than a housing market collapse, the view of U.S. hedge funds is that Canada's banks are in for a rough time when the credit cycle normalizes.

**Royal Bank of Canada**, Toronto-Dominion and Scotiabank are the [most popular](#) targets of short sellers, being the first, fourth and sixth most shorted stocks on the **TSX**, respectively. While there are headwinds ahead for the Big Banks, they are certainly not as severe as the short sellers would have you believe.

In fact, shorting Canada's banks has become a costly trade for hedge funds over the last decade and has [become known](#) as a *widow maker trade*. There are indeed signs of good times ahead for Toronto-Dominion. The bank is ranked as a top 10 North American bank after having invested heavily in expanding its U.S. commercial and retail banking as well as TD Securities capital markets operations.

Second quarter diluted net earnings soared by 10% year over year to \$1.70 per share, which can be

attributed to solid loan and deposit growth, which shot up by 7% and 5%, respectively. A large portion of that earnings growth came from Toronto-Dominion's U.S. retail banking division, in which net income grew by an impressive 29% year over and was responsible for 39% of the bank's total bottom line.

An improving economic outlook in Canada and the U.S. will support further earnings growth, as will Toronto-Dominion's digital growth initiatives and renewed focus on improved IT as well as customer satisfaction.

Credit quality remained strong, with Toronto-Dominion reporting a gross impaired loans ratio of 0.5% compared to 0.7% a quarter earlier and 0.47% for the same period in 2018. The bank is well capitalized, reporting a second quarter common equity tier one capital ratio of 12%, which is marginally higher than the 11.8% reported a year earlier.

When these factors are considered in conjunction with 33% of Toronto-Dominion's Canadian real estate lending portfolio being insured and the low 54% loan to value ratio for the uninsured component of that portfolio, a housing slow down or decline in the credit portfolio poses a negligible threat.

## Foolish takeaway

Toronto-Dominion's earnings will keep expanding at a healthy clip, and the bank is well positioned to weather any economic storm sparked by the ongoing threat of a trade war and the Eurozone's lacklustre growth. When this is considered in conjunction with Toronto-Dominion rewarding investors through regular dividend hikes, which it has increased for the last eight years straight to see it yielding a juicy and sustainable 4%, TD is a stock to buy and hold forever.

Had you invested \$10,000 in Toronto-Dominion in 2009 and reinvested all dividends paid, that investment would be worth \$34,000 for a total return of 240% or 13% on average annually.

### CATEGORY

1. Bank Stocks
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1. NYSE:TD (The Toronto-Dominion Bank)
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