New RRSP Investors: Should Toronto-Dominion Bank (TSX:TD) Stock Be in Your Portfolio?

Description

Canadians are searching for reliable stocks to put inside their self-directed RRSP portfolios. The TSX Index is home to many high-quality companies, and the banks often come up as top stock picks.

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

U.S. expansion

In the mid-2000s, TD decided it wanted to be a significant player in the United States and began making acquisitions of regional banks in key target markets in the eastern part of the country. Over the course of about a decade, TD spent more than $20 billion to build the American business that now has operations running from Maine right down to Florida. The division provides retail banking services through more than 1,200 branches. It also has a stake in broker TD Ameritrade.

Management has said TD is comfortable with its size and ability to compete in the market. TD is now a top-10 bank in the United States and the American division accounts for more than 30% of total profits. The U.S. presence provides a revenue balance and diversifies the income stream to help offset potential trouble in Canada. Tax cuts in the United States have resulted in a nice boost to profits, and TD's overall bottom line gets additional support when the U.S. dollar strengthens against the loonie.

The big multi-billion-dollar deals in the U.S. might be done for the medium term, but investors could see ongoing smaller tuck-in purchases when strategic assets become available.

Canadian growth

TD spent some money last year to increase the size of its wealth management operations in Canada. The bank purchased Greystone Capital Management for just under $800 million to add $36 billion in assets under management to the TD Asset Management business.

Risks

TD is widely considered to be the safest pick among the big Canadian banks due to its primary focus on retail banking. That said, the bank still comes with some risk, which is why short-sellers sometimes target the stock.

So far, bets against TD have not panned out, and that could continue to be the case, but it's important to know why some investors are negative on the stock. The largest threat likely lies in the residential Canadian mortgage portfolio. TD finished fiscal Q2 2019 with $283 billion in Canadian housing loans. Insured mortgages represent 33% of the total and the loan-to-value ratio on the rest is 54%.

Things would have to get pretty bad in the housing market before TD takes a sizable hit, but the threat is worth noting.

Interest rates and employment levels are key stats to watch. Canada and the U.S. have halted interest rate hikes, and the next moves are expected to be to the downside. This should take a good chunk of the risk out of the market, as homeowners can renew at lower rates and more new buyers will have the ability to enter the market.

The economy remains robust and unemployment is low. As long as we don't see a big wave of job losses, there shouldn't be a problem.

Dividends

TD has a compound annual dividend-growth rate of 11% across the past 20 years. The bank anticipates earning-per-share growth to be 7-10% over the medium term, so solid dividend increases should be on the way. The stock provides a yield of 3.9%.

Should you buy TD today?

The stock has enjoyed a nice rally in 2019, but at $76.50 it still trades below the 2018 high and is a reasonable 12.3 times trailing earnings.

If you are searching for a quality buy-and-hold dividend stock to anchor your RRSP portfolio, TD should be an attractive choice.

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