



TD Bank's (TSX:TD) Dividend Growth Is Absolutely Phenomenal!

Description

If you're looking for a stock with long-term dividend-growth potential, it's hard to find a better bet than **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

With a five-year dividend-growth rate of 9.6% annualized, it's one stock that has kept upping its shareholders' income over time. The company has paid a [dividend consistently every year for 162 years](#); while it hasn't necessarily increased the dividend every single one of those years, it has more often than not.

As you're about to see, TD's dividend growth has been powered by a set of factors that not all Canadian banks can replicate. While some of the other Big Six banks are cheaper right now, TD is still the best for long-term income potential. The main reason pertains to its operations south of the border.

A fast-growing U.S. retail business

TD is, by far, the most American of Canadian banks, with a huge U.S. retail business that ranks *ninth* in the States.

The company's U.S. operations are highly concentrated on East Coast markets like New York, so the company has room to grow by pushing further west.

And grow it has! In its most recent quarter, TD's U.S. Retail business grew at 13% year over year — down from past quarters but still far better than the domestic operations of any Canadian bank. Strength in the U.S. helped contribute to TD's 7% bottom-line earnings growth. Over time, U.S. Retail has come to represent a larger and larger share of TD's total earnings; at this point, the contribution is well over 30%.

A lucrative investment

Another factor driving TD's strong earnings growth is its **TD Ameritrade** investment. TD Ameritrade is

a U.S. brokerage firm that is 42% owned by TD. Its shares have seen strong historical gains, which, when combined with a 3% dividend yield, contribute to TD's bottom-line results significantly.

It should be mentioned that TD Ameritrade shares have not done especially well this year. Under pressure from no-fee trading platforms, the stock fell 34% in the span of a few weeks this past September. Since then, it has recovered somewhat, but these losses could hurt TD's bottom-line results in the next quarter.

Foolish takeaway

Taken together, TD's U.S. retail business and TD Ameritrade contribute steady growth to their parent company. This explains why TD has been able to crank out such consistent dividend increases. Unlike the rest of the Big Six banks, TD has a major growth engine that can drive double-digit earnings growth in good quarters, which allows the bank to increase its dividend over time.

Do note, however, the fee pressure on brokerage firms. Seemingly every day, we hear about another broker eliminating fees, and the more this is normalized, the more creative banks will have to get to earn money on trading. Of course, there are other potential revenue options (premium services, paid research reports, robo-advisors, etc.), but in the short term, brokers will continue to feel the heat.

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