Should Toronto-Dominion Bank (TSX:TD) Stock Be on Your TFSA Buy List?

Description

The big Canadian banks are some of the most profitable businesses in Canada. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) alone brings in annual revenues of roughly $40 billion and net income of about $12 billion.

TD stock has been an excellent long-term investment. After recovering from the financial crisis, since fiscal 2010, TD stock has been one of the best performers among its big-bank peers with total returns of 12% per year on average while delivering reliable and decent dividend payments.

Even better, the bank stock trades at just 11.1 times earnings, making the quality dividend stock a good value against its normalized multiple of 12.1 times earnings.

Like most of its Canadian big-bank peers, TD stock has been dragged down by slower-than-anticipated economic growth in the near term. And in particular, due to rate cuts in the U.S. in 2019, the net interest margin in TD's U.S. retail business was 3.18% in fiscal Q4 2019 — 0.24% lower against Q1. The third rate cut is expected to negatively impact results for fiscal Q1 2020.

Investors may also be shying away from TD stock because the bank's provision for credit losses (PCL) has increased this year. However, investors shouldn't be alarmed, because the phenomenon is a normalization that's happening across the big Canadian banks. Besides, TD Bank's PCL ratio of 0.45% for fiscal 2019 is still a low number.

Analysts currently estimate that TD Bank will generate earnings-per-share growth of about 4-7% per year over the next three to five years, while TD Bank aims for longer-term growth rates of 7-10%.

The outlook for TD Bank is gloomy in the near term, as slower growth (compared to the recent past) is anticipated to ensue. However, this is also why you can buy the stock at a slight discount from its long-term history right now.

If you are a long-term investor, you should welcome the opportunity to buy the quality business on the dip and lock in a starting yield of 4% before the bank increases its dividend in February or March for an even bigger forward yield!

Seeing that TD Bank's payout ratio is only about 44% of earnings, it can increase the dividend by about 10% and still end up with a conservative payout ratio of about 46% for fiscal 2020. So, it's a matter of if management thinks it's a better use of capital to buy back and cancel shares at a good valuation or increase the dividend at a higher rate.

In either case, I'm a happy camper to get a yield of about 4% today in my long-term TD stock investment. You can buy this stock and wake up 10, 20, or 30 years later and expect your investment to be much higher while getting an increasing dividend income.

Needless to say, TD stock makes a great holding for the TFSA. It's a conservative name that can deliver annualized returns of about 12% per year over the long run, assuming the stock resumes to a growth rate of at least 7% in the future.

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