RRSP Investors: Should You Buy TD (TSX:TD) Stock Right Now?

Description

The holidays are almost over, and that means RRSP season is right around the corner.

The Registered Retirement Savings Plan (RRSP) contribution deadline for the 2019 tax year is March 2, 2020. This means many Canadians will spend the next two months sorting out their cash positions, calculating their taxable income for 2019, and deciding how much they can contribute to their RRSP.

The RRSP is a useful tool to set cash aside for the golden years. The contributions can be used to lower taxable income now, and the funds can grow tax-free inside the RRSP until they are withdrawn. At that point, tax is paid, but ideally at a lower marginal tax rate than when the contributions were initially made.

Several options are available for investing the funds, including GICs, bonds, and stocks. GICs from the Canadian banks currently offer rates that are close to the rate of inflation. Regarding bonds, a big rally over the past year has reduced yields and increased the risk of a reversal in 2020.

As a result, dividend stocks will likely be a popular choice for RRSP investors this year, and the big Canadian banks often come up as top picks to anchor a self-directed retirement fund.

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

2019 results

TD's fiscal 2019 adjusted earnings rose 3% compared to the previous year. Profits hit $12.5 billion, and the adjusted return on equity was 15.6%, so things are still pretty good for the bank and its investors.

The U.S. retail banking division outperformed the other groups, despite pressure from lower interest rates in the United States. Canadian retail banking kept its head above water on an adjusted basis, while the wholesale banking group had a rough year.

Investors saw the dividend increase by 11% over the course of the 12-month period, and TD repurchased 30 million common shares. At the time of writing, the stock provides a yield of 4%.

Risks

Across the company, provisions for credit losses (PCL) increased 22%, as more businesses and consumers fell behind on debt payments. Investors will want to keep an eye on the PCL trend in 2020 to see if it stabilizes.

The Canadian banks faced some headwinds in 2019, and that trend could continue in 2020. Lower interest rates in the United States put pressure on net interest margins in that market. The Bank of Canada held rates steady in 2019, but a rate cut could be on the way in 2020 if economic conditions deteriorate.

This, however, isn't guaranteed.

Until recently, a 2020 rate cut appeared likely, but the inflation report for November came in at 2.2%, which is above the Bank of Canada's target rate of 2%. If inflation remains high in the coming months, the Bank of Canada could be forced to increase interest rates.

That would help net interest margins but could push more borrowers into default positions.

Should you buy TD?

The stock isn't cheap at 11.75 times trailing earnings, but TD rarely goes on sale. The bank is widely viewed as the safest pick among the Canadian banks and should continue to generate decent income growth over the long haul. The dividend is safe, and while an 11% annual increase might not be in the cards in the medium term, payout growth is anticipated.

The coming year could be a challenging one for the sector, so I would probably take a half position in the stock now as a dividend pick and look to add to the holding on any meaningful pullback that might occur in 2020.

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