TFSA Investors: Should You Buy TD Bank (TSX:TD) Stock Today?

Description

The Tax-Free Savings Account (TFSA) is a great tool for Canadian investors seeking to create a tax-free portfolio that can grow to become a retirement fund or used to generate a steady stream of income.

The best stocks to pick tend to be companies that are industry leaders with long histories of delivering dividend growth supported by rising revenue and increasing profits.

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

Operations

TD is a major player in both the Canadian and U.S. retail banking sectors. The domestic operations are best known to investors and still generate the majority of the bank's profits, but TD's U.S. retail division actually has more branches.

The American group has grown significantly over the past 15 years as TD spent billions of dollar on acquisitions to create a business that runs from Maine right down the east coast of the United States to Florida.

In fiscal 2019, the U.S. business contributed nearly $5 billion of the total $12.5 billion in adjusted net income, giving investors great exposure to the American economy through a top Canadian stock.

Risks

TD is widely considered to be the safest choice among the larger Canadian banks due to its focus on retail banking activities, but that doesn't mean it isn't without risk.

The bank has significant exposure to the Canadian housing market through its residential mortgage portfolio, and any major decline in house prices would be negative for TD.

In the near term, that shouldn't be a problem. Employment levels remain robust and the decline in bond yields through 2019 helped lower fixed-rate mortgage costs. This is positive for homeowners who have to renew and helps new buyers enter the market.

Falling interest rates in the United States, however, are putting a pinch on net interest margins (NIM). The U.S. Fed is expected to sit tight through 2020, so more downside pressure shouldn't be on the way this year.

A global economic downturn caused by an extended trade war between the United States and China is another threat to consider when evaluating TD and other bank stocks.

In the event the United States is hit with a severe recession, Canada will also suffer, potentially resulting in higher unemployment rates.

Canadians are carrying very high levels of debt, so a wave of job losses would put pressure on household finances and defaults on loans would rise. The banks are already reporting higher provisions for credit losses — a trend worth watching over the coming quarters.

TD is well capitalized with a CET1 ratio of 12.1%, so things would have to really go off the rails before the bank gets into serious difficulties.

Dividends

TD is one of Canada's top dividend stocks with a compound annual dividend growth rate of about 11% over the past 20 years. That trend might not continue at the same level, but investors should see steady hikes each year in line with earnings per share growth that should run in the 5-7% range.

The current distribution provides a 4% yield.

Should you buy TD?

At the time of writing, the stock trades for just under 12 times trailing earnings. That isn't cheap when you consider some of the headwinds, so I wouldn't rate the bank a screaming buy today.

However, investors searching for a reliable dividend stock to serve as an anchor position for a buy-and-hold TFSA portfolio should be comfortable owning TD. Any weakness in the shares in the coming months would be viewed as a chance to add to the position.

Historically, meaningful pullbacks in TD's stock price have proven to be a good buying opportunities.

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