



## If You Don't Buy TD Bank (TSX:TD) Today, You'll Kick Yourself Later

### Description

Every now and again the stock market gives investors an unbelievably good bargain — something you'll look back on years later with amazement. I believe that situation is playing out today with **TD Bank** ([TSX:TD](#))([NYSE:TD](#)), one of Canada's top banking stocks.

The situation looks to be dire for Canada's second-largest bank by market cap. A combination of general economic worry and the [carnage hitting the oil market](#) has investors preparing for the worst.

Shares have gotten crushed as a result. The stock is down more than 20% in the last month alone, which is worse than the **TSX Composite Index**.

Every bank in Canada has exposure to oil in a number of ways. TD makes loans to energy producers, oil service companies, and pipelines. Its capital markets division helps these companies access investor cash through the stock market. And there are countless retail banking customers who make a living either directly or indirectly through the energy sector.

So I can see why investors are nervous. There's no doubt things look bleak in the short-term, but that's exactly the time to buy. Here's why I just loaded up on TD Bank shares — and why you should do the same.

### Is TD Bank Canada's top bank?

Although TD is only Canada's second-largest bank by both market cap and market share, many investors give it top nod in the quality department. They have a lot of confidence in CEO Bharat Masrani and his team.

Let's start with retail banking. TD has nearly 1,100 branches in Canada, and more than 15 million customers. Thanks to investments its online platforms and other technologies that make day-to-day banking easier, these customers don't waste time with easy transactions at the branch level.

This leaves frontline staff with plenty of time to focus on things that really make the bank money — like

mortgages, credit cards, and wealth management.

Canadian banking is a market dominated by the five largest banks, which is a big advantage. And remember, most high-risk mortgages are insured against default — another big plus for Canadian banks.

## U.S. operations

TD Bank has done a terrific job diversifying into the United States. Approximately one-third of its earnings come from these foreign assets.

TD's retail presence in the United States includes strongholds in places like Massachusetts, New York, South Carolina, and Florida. In total it has 1,241 branches and nearly 2,800 ATMs.

Its path forward in the U.S. will be two-fold — growth will come from both by gaining market share in current locations and acquiring other regional banks. The U.S. banking system is quite fragmented, so there's plenty of potential there.

The company also holds a significant stake in **Charles Schwab** after the company bought TD Ameritrade.

## Financial metrics

TD Bank consistently posts excellent financial results.

Between 2014 and 2019, the company steadily grew both the top and bottom lines. Earnings rose from \$7.9 billion in 2014 to \$11.7 billion in 2019. Look for the bottom line to eclipse \$12 billion in 2020.

The company also has a strong balance sheet, solid tier 1 capital ratios, and it consistently posts excellent returns on equity. It also quietly bought back some 30 million shares in 2019.

These excellent results translate into terrific [dividend growth](#). From 1999 to 2019, TD Bank raised its dividend by an average of 11% per year. Thanks to the stock's recent weakness, you won't believe the dividend yield. TD Bank shares currently pay an eye-popping 5.5% dividend.

The usual payout is around 4%. With a target payout ratio of between 40 and 50% of earnings, you don't have to worry about the dividend, either. It's safe.

## The bottom line

These kinds of opportunities only come along once every few years. It isn't very often great stocks like TD Bank go on sale.

With shares trading at well under 10x forward earnings expectations and the dividend yield all the way up to 5.5%, it's obvious the company's stock is undervalued.

Yes, it's hard to buy when things are so uncertain. But that's when you make the most money.

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