Should You Buy TD Bank (TSX:TD) for the 5.2% Dividend Yield?

Description

TD Bank (TSX:TD)(NYSE:TD) has been back on the retreat thanks to recent downgrades by a handful of analysts, including the likes of those at Credit Suisse, who recently slapped an "underperform" rating on the name alongside a meagre $59 price target.

Credit Suisse notes that TD Bank is the "most exposed to low rates" compared to its Big Six peers, with the "lowest exposure to the capital markets." The capital markets have been a major bright spot for the big banks in what's been a dark year full of pandemic headwinds. With interest rates likely to remain lower for longer, TD Bank's net interest margins (NIMs) are undoubtedly poised to take a major hit to the chin. No surprises on that front.

Credit Suisse also noted that TD could take a major corporate tax hit if Joe Biden were to win the U.S. presidential election. TD Bank is Canada's most American bank, so it does face greater election risks relative to its peers, but is the drastic analyst downside really warranted?

Analysts turn against TD Bank, but here's why you shouldn't

Sure, TD Bank faces an uphill road to recovery compared to some of its peers, including the likes of **Royal Bank of Canada**, whose capital markets business has been shining of late. But I think the recent bout of pessimism is a tad overblown and would encourage value investors to take recent analyst downgrades with a fine grain of salt.

TD Bank's greater exposure to the U.S. market has typically been a huge positive for the stock until recently. The COVID pandemic has hit the U.S. really hard. With a presidential election that could take a considerable bite out of bank earnings, there's no question that investors are growing weary over TD's above-average exposure to the states.

As analysts turn their back against the well-run Canadian bank that I still think is worthy of a premium multiple versus its peer group, I think I'd be more inclined to scoop up more shares while they're trading at a steep discount relative to historical averages.

Don’t get me wrong: the headwinds that Credit Suisse highlighted as a part of its downgrade are very real. But with TD shares that are already trading at a lofty discount versus some of its more domestically-exposed peers in the space, I’d argue that long-term investors seeking greater geographic diversification have a lot to gain by going against the grain now such U.S. exposure is viewed as highly unattractive by investors and analysts.

Foolish takeaway

At the time of writing, shares of TD Bank trade at 1.3 times book value, which is close to the lowest it’s been in recent memory. If any bank is going to bounce back from a crisis, it’s TD. While U.S. banking exposure will be viewed as a weak spot for the next 18 months or so, such exposure will be worthy of a premium after the dust has a chance to settle.

In the meantime, TD Bank could stand to be more volatile than its peers, and if the discount to its Big Six peers widens over the coming months, I’d scoop up more shares of TD Bank as the dividend yield (currently at 5.2%) stands to swell further.

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joefrenette