



TD Bank's (TSX:TD) Impressive Returns Will Surprise Investors!

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) has been one of Canada's top-performing bank for quite some time. In the last decade, it has managed to outpace not only the **TSX**, but also the bank index. This outperformance can be attributed to TD's expanding retail business south of the border.

While its peers are largely focused on establishing a strong domestic footprint, TD bank is expanding its presence in the U.S., a far bigger market. In fiscal 2019, while Canada's retail segment accounted for 55% of total revenue, the U.S. Retail business contributed 40% to sales.

At the end of 2019, TD Bank [served 26 million customers](#) across the globe. It is the fifth-largest bank in North America with over 2,300 retail locations in the continent. This expansion has helped TD Bank become one of the top performers on the TSX recently.

Shares of TD Bank are trading at \$60.42, which indicates the stock is up 10% in the last five years and is up close to 40% in since October 2010.

Comparatively, the **TSX/60 Index** is up 27% in the last decade.

TD Bank has a forward yield of 5.2%

TD Bank's outperformance might come as a pleasant surprise for investors, as Canadian banks have the reputation of being steady rather than aggressive. TD Bank's market-beating returns has been achieved despite a less than impressive performance in CY 2020.

The COVID-19 pandemic [sent the stock spiralling downwards](#) in early 2020 and while the banking heavyweight has recovered some losses, the stock is still trading 25% below its 52-week high.

The high unemployment rates in Canada and the U.S. coupled with a low interest rate environment has weighed heavily on banking stocks. Further, higher provision for credit losses is also expected to drive earnings growth lower in the next few quarters.

However, the recent decline in TD stock has meant it now has a tasty forward yield of 5.2%, which means a \$10,000 investment in the stock will generate \$520 in annual dividend payments.

Further, TD has been able to grow its dividends at an annual rate of 10% in the last 10 years, making it one of the top growth stocks among blue-chip companies.

What's next for investors?

Investors should note that past returns are irrelevant and they should instead look at the company's fundamentals to decide if it remains a solid bet. TD Bank has a market cap of \$110 billion with a forward price to sales multiple of 2.6 and a price to book ratio of 1.26. TD stock is also trading at a low price-to-earnings ratio of 11.9.

The company's tepid earnings forecast is already priced in and analysts tracking TD Bank have a 12-month average target price of \$66.52 which indicates an upside potential of 10%. Total returns can be closer to 16% after accounting for the stock's dividend yield.

TD is well poised to grow at a faster pace than peer Canadian banks and is trading at similar multiples. This appears to be a recipe for continued superior returns.

Alternatively, the bank might underperform if the U.S. economy's recovery is slower than expected as it derives about 30% of earnings from the U.S.

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Author

araghunath

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