TD Bank (TSX:TD) Stock: A Stellar Dividend Growth Play

Description

If you're looking for high yield and dividend growth potential, the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is one of the most exciting opportunities out there. Offering a 3.7% yield today, it's already above-average. And the yield-on-cost could continue to grow from here on out. In this article I will explore TD Bank stock in detail and make the case that it's one of the best dividend-growth plays in Canada today.

TD Bank's historical dividend growth

TD Bank has raised its dividend every year for the past five years. Its five year dividend growth rate is 9.1%. At a 9.1% dividend growth rate, it takes approximately eight years to double your dividend. So, if TD keeps up its historical dividend growth, then a stock bought today at a 3.7% yield, will have a 7.4% yield in eight years. Of course, that's assuming that the dividend growth will continue — which is far from guaranteed.

However, there are several solid reasons to believe that TD Bank will be able to keep up its dividend growth streak going forward. In the next section I will explore those reasons in detail.

Why it could easily continue

There are several reasons to believe that TD Bank's dividend growth streak could continue.

One of the first is the bank's recent deal with **Charles Schwab** (NYSE:SCHW). In exchange for selling **TD Ameritrade** to Schwab, TD received a 13.5% stake in Schwab itself. As a result, TD is now the largest shareholder in the world's largest brokerage. This year, we've seen TD report two quarters with Charles Schwab's earnings included in its financial statements.

Overall, they were very good. In the first quarter, Charles Schwab contributed $209 million, beating what TD Ameritrade contributed in the same quarter a year before. In the second quarter, Charles Schwab contributed $223 million. That's slightly less than what TD Ameritrade contributed in the same quarter a year before, but the amount taking out M&A costs ($272 million) was higher.

Another reason for optimism toward TD's dividend growth is rising interest rates in the United States. TD owns a large U.S. retail business that provides as much as 30% of its earnings. In 2020, that held TD back, as interest rates in the U.S. were extremely low that year. That's beginning to change. At present, the 10-year treasury yields 1.58%–triple where it was in March 2020. As rates rise, mortgage rates also tend to rise, leading to increased profit margins on loans. Banks, of course, naturally profit from this.

And TD is perfectly positioned to do so. With a massive U.S. banking operation, it's just a matter of time until TD begins to capitalize on rising rates. With higher rates will come higher earnings growth. Ultimately, that could power continued dividend growth–which would reward investors handsomely for years to come.

Foolish takeaway

Over the past decade, TD Bank has been one of Canada's best performing bank stocks. Thanks to growth in its U.S. operations, it easily outclassed its Big Six peers. In 2021, that trend hit a stumbling block, as other banks produced better first-quarter growth than TD did. But now, with the U.S. coming out of the COVID-19 recession, TD looks ready to start kicking once more.

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