TD Bank: Should You Buy This Top Dividend Stock Now?

Description

TD (TSX:TD)(NYSE:TD) recently reported solid fiscal Q3 2021 results, but the stock has been on a negative trend for the past three months. Investors who missed the huge rally at the start of the year are now wondering if this is the right moment to buy TD stock.

Earnings

TD generated adjusted fiscal Q3 2021 earnings of $3.5 billion, up $1.3 billion from the same period last year. The bank continues to see default risks slide, as the economy slowly gets back on track amid rising vaccination rates in Canada and the United States.

TD booked a recovery of provisions for credit losses (PCL) of $37 million in the quarter compared to $2.2 billion in PCL in Q3 2020. The bank finished the quarter with a CET1 ratio of 14.5%. That's comfortably above the 9% the Canadian banks are required to maintain and suggests TD is sitting on a significant pile of cash that can be deployed in a number of ways to benefit investors.

Canadian retail banking saw revenue jump 9% year over year in Q3. Revenue in the U.S. operations increased by 5%. Wholesale banking activities, however, took a hit, as trading-related revenue slipped 50%. Net income for the group dropped 25% compared to fiscal Q3 2020.

Overall, TD posted a solid quarter in an uncertain economic environment. It's tough to complain when the bank generates profits of more than $1 billion per month!

Opportunities for investors

TD used acquisitions to build its large U.S. retail banking division over the past 15 years, and pundits speculate the bank could use its cash hoard to do another big deal south of the border. Investors are also hoping for a large dividend increase once the government lets TD and its peers restart payout increases. TD is one of the top dividend-growth stocks in the **TSX Index** over the past two decades, and a double-digit dividend hike wouldn't be a surprise when TD gets the green light to increase the distribution.

TD might also relaunch an aggressive share-buyback program to use up some of the excess cash.

Risks

The spread of the Delta variant is stoking fears of a large fourth pandemic wave. Despite a relatively high vaccination rate, Canada and the U.S. still have millions of unvaccinated people. In the event serious illness cases threaten the healthcare system again the economic recovery could stall or grind to a halt. TD's own analysts put out a report that suggests provinces without vaccine passports could see a slower economic recovery.

Another risk to watch relates to inflation and the threat posed by rising interest rates. The Bank of Canada and the U.S. Federal Reserve are content to let inflation run a bit high for a while before they increase interest rates. However, persistently high inflation could force their hand sooner and that might spell trouble for the Canadian housing market in the next few years.

TD finished fiscal Q3 2021 with $328 billion in real estate loans on the books, of which 76% is uninsured. Loan-to-value rates are running about 50%, so things would have to get pretty ugly before TD takes a meaningful hit, but the risk is worth considering when evaluating the stock.

Should you buy TD stock now?

TD is a proven buy-and-hold pick for dividend investors. The stock currently trades near $83 per share compared to the 2021 high around $89, so there is an opportunity to buy the dip. At the time of writing, the dividend provides a decent 3.8% yield.

That said, I would probably buy a half position now and see how things go through the end of the year. Additional downside could be on the way in the next couple of months, especially if the fourth COVID-19 wave forces new lockdowns.

The broader market is due for a healthy correction, even if COVID-19 stays under control, so you might still get a better entry point heading into 2022.

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