



## Should You Buy TD Stock for Your RRSP?

### Description

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is up 35% in the past year. Investors who missed the big rally are wondering if TD is still a good stock to buy for their [RRSP](#) portfolios.

### TD Q4 2021 earnings outlook

TD is set to report fiscal Q4 2021 earnings results on December 2. Investors are hoping to see another quarter of strong profits driven by rising deposits, mortgage loans, and wealth management fees, as well as lower provisions for credit losses (PCL) on loans to customers that ran into trouble during the pandemic.

The Q3 2021 earnings results should provide a good picture of what is likely on the way. TD generated adjusted net income of \$3.6 billion in the three months, up from \$2.3 billion in the same period last year.

In the Canadian retail business revenue rose 9% year over year, supported by new mortgages, deposits, commercial loan growth and mutual fund sales, along with record sales across the credit card business. PCL decreased by \$851 million in the quarter, with lower impaired PCL and a recovery in performing PCL.

South of the border, TD has an extensive retail banking business that stretches down the east coast from Maine all the way to Florida. Revenue in U.S. dollars increased 5%. PCL dropped by US\$729 million in the quarter as a result of lower-impaired and lower-performing provisions.

Investors will want to see if the PCL trend continued to improve in Q4. A recovery in performing PCL would be a positive sign the U.S. operations are getting back to normal.

### Capital position

TD finished fiscal Q3 2021 with a common equity tier 1 (CET1) capital ratio of 14.5%. The bank is only required to maintain a CET1 ratio of 9%, so it is sitting on significant excess funds. TD set the extra

cash aside to cover potential loans losses in the past 18 months. Now that government aid programs for the unemployed and businesses are winding down, TD could see a spike in defaults in the coming months.

That said, the amount will be much lower than analysts initially feared when pandemic lockdowns first went into place in 2020. As a result, TD will look to deploy the extra cash in 2022 and 2023.

## Dividends

The government just lifted a ban on dividend increases and share buybacks that affected Canadian banks and insurance firms. TD will likely announce a large dividend increase when it reports Q4 2021 earnings.

In prior years, TD had a compound annual dividend-growth rate of better than 10%. With that thought in mind and the large cash pile, a dividend boost of at least 20% is very possible for 2022.

## Share buybacks

TD will probably put a new share-buyback plan in place that could target up to 5% of the outstanding float for repurchases over a 12-month period.

## Should you buy TD stock now?

The shares still appear attractive at the current multiple of roughly 11 times trailing 12-month earnings. The stock could get a nice boost when the Q4 results come out if the dividend increase and the share buybacks are more aggressive than anticipated.

TD has delivered strong total returns for investors for decades, and that should continue to be the case. If you have some cash to put to work in a self-directed RRSP, TD stock deserves to be on the buy list.

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