Is TD Bank (TSX:TD) Still a Good Dividend Stock to Start a TFSA Focused on Passive Income?

Description

Canadian investors are using their self-directed TFSA to build portfolios of dividend stocks that can generate reliable and growing passive income for years. The great thing about the TFSA is that the tax-free earnings can go straight into your pocket, and seniors don't have to worry about the income triggering a clawback on their Old Age Security (OAS) pensions.

Good stocks to own tend to have strong track records of dividend growth supported by rising revenue and higher profits. **TD Bank** (TSX:TD)(NYSE:TD) fits that description and has been a top stock for income investors over the years. Let's take a look at the current situation to see if TD stock is still an attractive pick right now.

Earnings

TD generated more than $14.6 billion in adjusted net income in fiscal 2021 and finished the year with a CET1 ratio of 15.2%. The metric is a measure of the bank's capital position and indicates how well TD can withstand an economic shock. The government regulator requires the Canadian banks to have a CET1 ratio of at least 9%, so TD wrapped up 2021 with significant excess cash. This is important, as it means TD has the safety net in place to ride out any additional turbulence in the markets.

Banks will soon see their corporate tax rate rise to 16.5% from 15%. This will put a small dent in cash flow available for dividends in the future. A retroactive surtax of 15% is also being applied to their 2021 earnings, according to details recently revealed in the 2022 federal budget.

Growth

TD recently announced a US$13.4 billion all-cash acquisition in the United States that should drive strong future growth. The deal to buy First Horizon will make TD a top-six retail bank in the U.S. and adds more than 400 new branches to the American operations. TD has built its American business over the past 15 years, and investors will benefit from economic expansion in the U.S. market.

Dividends and share buybacks

Investors should get a generous dividend increase for fiscal 2023. TD is one of the best dividend-growth stocks in the **TSX Index** in the past two decades with a compound annual dividend-growth rate of more than 10%. That has a significant impact on total returns for buy-and-hold investors and puts more cash flow in the pockets of investors seeking passive income.

The bank raised the dividend by 13% for fiscal 2022 and is using some of its extra funds to buy back stock. At the time of writing, TD trades near $97 per share and provides a 3.7% dividend yield.

Risks

The stock is back below $100 per share after suing to $109 earlier this year. Additional downside is possible in the near term. Rotation out of the banks picked up steam after the recent inversion of bond yields in the United States. Long-term bonds normally offer higher yields than bonds with shorter maturity timelines. At the time of writing, the U.S. 30-year yield is actually lower than the five-year yield. The inversion event is widely believed to be a warning that a recession is on the way in the next two years.

Rising mortgage rates might be another risk to TD and its Canadian peers that hold significant residential real estate loans on their books. A sharp rise in borrowing costs will cool off the housing market, and if rates rise too high too quickly and remain elevated for a few years, the housing market could see a meaningful downturn. This isn’t the likely outcome, but investors should keep the possibility in mind when considering TD as an investment.

Is TD a good stock to buy now?

Despite the near-term risks, TD deserves to be a core TFSA pick for investors seeking reliable passive income. Buying the stock on dips has proven to be a rewarding strategy over the long haul, and this time shouldn’t be different.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date
2025/09/09
Date Created
2022/04/11
Author
aswalker