



Why Keep This Big Bank Stock Despite a 0% Dividend Hike?

Description

Canadian banking giants delivered another dividend bonanza following their earnings releases for Q2 fiscal 2022. However, one of the Big Six banks did not join the parade. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) raised its quarterly dividends by 13% in late 2021, although it opted not to follow the herd this time.

A dividend increase is welcome news, but the decision to hold off a boost in payouts isn't a reason to dump the stock. The country's second-largest lender is worth keeping, despite the zero-dividend hike. TD remains the top choice if you're looking for a cornerstone in your portfolio.

Dividend bonanza 2022

While the dividend increases in 2022 are less generous compared to 2021, investors of **RBC** (7%), **Bank of Nova Scotia** (3%), **BMO** (6%), **CIBC** (3%), and **National Bank of Canada** (6%) were delighted by the bumps. Canada's [banking sector](#) has weathered economic downturns in the past, and it will endure today's perfect storm.

TD's non-participation in the parade didn't diminish the stock's quality or star power. The Group's president and CEO, Bharat Masrani, said, "As we continue to emerge from the COVID-19 pandemic, we face new economic uncertainties and growing geopolitical tensions. TD has proven its ability to adapt to changing circumstances and deliver performance and progress."

Strong revenue growth

In Q2 fiscal 2022 (quarter ended April 30, 2022), top and bottom line increased 10% and 3%, respectively, versus Q2 fiscal 2021. On a year-to-date basis (six months), TD's net income is \$7.54 billion, or 8%, from the same period in fiscal 2021. However, the provision for credit losses (PCL) increased to \$97 million from a year ago.

Three business segments, namely Canadian Retail, U.S. Retail, and Wholesale Banking, are the key

contributors to revenue growth. Masrani said, “TD’s second-quarter performance reflects the strength of our diversified business model and customer-centric approach. We have delivered strong revenue growth across our businesses.”

Top-six U.S. bank

The next chapter in TD’s growth story is about to unfold. In February 2022, management announced executing a definitive agreement to acquire First Horizon Corp. in the U.S. for US\$13.4 billion. On May 31, 2022, the shareholders of the Memphis, Tennessee-based bank approved the proposed takeover.

TD’s all-cash transaction is among the high profile, biggest private banking deals this year. The \$173.15 billion bank is awaiting regulatory approvals and hopes to obtain them by the end Q1 fiscal 2023. Once complete, TD will become the sixth-largest bank in America.

According to Masrani, First Horizon is a great bank and a terrific strategic fit for TD. It gives the Canadian bank an immediate presence and scale in highly attractive adjacent markets in the United States. Moreover, there’s tremendous opportunities for future growth, especially in southeastern United States.

Bryan Jordan, First Horizon’s president and CEO, looks forward to the business combination, because it will create extraordinary value for the bank’s key stakeholders. He also described the deal as a true growth story. Based on forecasts, the markets of First Horizon will grow 50% faster than the U.S. national average.

Buy-and-hold asset

TD doesn’t pay the highest dividend in the banking sector. At \$95.99 per share, the yield is 3.68%. However, the big bank stock is a low-risk, reliable income provider for long-term investors, retirees, and even beginners.

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