



Should You Buy TD Bank (TSX:TD) Stock Now?

Description

The Canadian banks are down considerably over the past four months. Let's take a look at **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) to see if the stock is undervalued and good to buy for a [TFSA or RRSP](#) portfolio today.

The [market pullback](#) continues to pick up steam, and this is providing investors who missed the big rally off the pandemic lows with a chance to buy top TSX dividend stocks at discounted prices.

TD Bank earnings

TD reported decent fiscal Q2 2022 results. Adjusted net income came in at \$3.7 billion, or \$2.02 per share. This was slightly below the earnings for the same period in the previous year.

TD's Canadian retail banking business saw net income rise 2% compared with fiscal Q2 2021. Record revenue on the personal banking side combined with strong commercial lending growth. The Canadian housing market remained strong in the first few months of 2022, as people scrambled to buy houses and condos before interest rates started to increase.

Looking ahead, the steep rise in both fixed-rate mortgage costs and the jump in variable rates due to the Bank of Canada rate hikes is expected to cool off the housing market. Prices are already in decline, and that could keep potential buyers who still qualify for mortgages on the sidelines.

Recession fears might also impact commercial borrowing in the coming months, as business owners become more conservative.

South of the border, TD's American retail banking business saw net income for the quarter drop by 9% on an adjusted basis. Despite the year-over-year Q2 weakness, TD is in the process of making its U.S. business a lot larger. The bank is buying **First Horizon** for US\$13.4 billion. The deal will add more than 400 branches to the existing American business and make TD a top-six bank in the American market.

TD is using its large cash hoard to make the acquisition. The bank built up a war chest of excess funds during the pandemic and finished fiscal Q2 with a CET1 capital ratio of 14.7%.

Dividends

TD raised the dividend by 13% later last year once the government lifted the ban on bank payout increases and share buybacks. TD was the only big Canadian bank that did not increase the distribution again when it announced the fiscal Q2 2022 results. Investors should see another generous dividend hike for 2023. TD is one of the top dividend-growth stocks in the TSX over the past 20 years.

Risks?

Investors are concerned that the Bank of Canada and the U.S. Federal Reserve will raise interest rates faster and higher than anticipated to fight persistent inflation. This could trigger a recession and cause a crash in the housing market.

A mild recession and a 10-15% drop in housing prices are widely expected. In the event the recession is more severe and house prices tank, TD and its peers could be in for a rough ride.

Should you buy TD stock now?

TD trades near \$89 per share at the time of writing compared to the 2022 high of \$209. At this point, the stock already looks [undervalued](#) and offers a solid 4% dividend yield. Additional downside could be on the way in the near term, so I wouldn't back up the truck, but buy-and-hold RRSP or TFSA investors might want to start a half position here and look to add to the holdings on any additional weakness.

Buying TD stock on meaningful dips has historically led to strong total returns for patient investors.

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