RRSP Investors: Should You Buy TD (TSX:TD) Stock Now?

Description

The 2022 market pullback has hit **TD** (TSX:TD)(NYSE:TD) particularly hard after the massive rally the shares enjoyed off the pandemic low. Investors who missed the surge in 2021 and watched the drop this year are wondering if TD stock is now undervalued and good to buy for a self-directed RRSP.

TD Bank overview

TD is Canada's second-largest bank with a current market capitalization of roughly $150 billion. The stock trades near $83.50 per share at the time of writing compared to the 2022 high around $109. At first glance, the dip doesn't make sense. TD's results for the first six month of fiscal 2022 came in better than last year. The bank delivered adjusted net income of $7.55 billion compared to $7.16 billion in the first half of 2021.

What's going on?

The steep drop in recent months occurred amid rising concerns about the future revenue and profit growth at all the Canadian banks.

Investors worry that a recession is on the way. High inflation is forcing households to allocate more cash to essentials like food, gasoline, and utilities. This means discretionary spending is expected to slow down, and some people will have to tap savings to cover living expenses. Businesses could be forced to reduce staff, putting even more pressure on consumer spending.

At the same time, the Bank of Canada is raising interest rates aggressively in an attempt to cool off the economy and bring down inflation. The sharp rise in borrowing costs is already hitting the housing market by making it harder for new buyers to qualify for loans. Rising rates will eventually put added pressure on existing property owners when the time comes to renew their mortgages.

Outlook

A deep and long economic contraction would be bad for the banks, but most economists predict a short and mild recession. Commodity prices are already dropping, and the jobs market remains solid. Headwinds exist, but the selloff in TD stock looks overdone.

TD built up significant excess cash during the pandemic to cover a potential wave of loan losses that never occurred thanks to substantial government aid programs put in place to help businesses and families get through the lockdowns. TD is now using the war chest of funds to make acquisitions to drive future growth.

TD is buying **First Horizon**, a retail bank, for US$11.3 billion in a deal that will add more than 400 branches to the existing U.S. operations located along the east coast from Maine down to Florida. First Horizon primarily operates in the southeastern states, so the deal should be a good fit. Once the acquisition closes, TD will become a top-six bank in the American market.

TD also just announced an agreement to buy U.S. investment bank **Cowen** for US$1.3 billion.

Dividends

The board raised the dividend by 13% in late 2021, and investors should see another generous increase for fiscal 2023. TD is one of the best dividend-growth stocks in the **TSX Index** over the past 25 years with a compound annual dividend-growth rate of better than 10%.

Should you buy TD stock now?

TD stock looks undervalued right now near 10.3 times trailing earnings and buying the shares on a meaningful pullback has historically proven to be a profitable decision.

The dividend offers a 4.25% yield at the current share price with good prospects for double-digit dividend growth in the coming years.

If you have some cash to put to work in a self-directed RRSP focused on total returns, TD deserves to be on your radar.

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Date
2025/08/31
Date Created
2022/08/08
Author
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