Why TD Bank Stock Is an Absolute Steal for Passive-Income Investors

Description

There are many stellar dividend stocks on sale following the first-half selloff that may or may not have bottomed in June. Indeed, things aren't always as gloomy as they seem in the heat of the moment, when everybody else is in a rush to hit that sell button. It feels so relieving to hit the sell button and just move on to better things. That said, by doing so, one risks missing out on a vast upside rally like the one enjoyed for July. While bear market bounces tend to fade, with the markets to meet lower lowers after it falters, there's no guarantee that the July jump is another fake-out or bull trap.

With the broadening out of the market rally (stocks across a broad range of sectors are in rally mode), there's a real chance that markets can start trending higher from here. Of course, further 5-10% gains in any given month are likely out of the question. Still, the risk/reward scenario on stocks looks pretty enticing going into year's end, even with all the risks considered.

Passive-income investors: Stay the course as rates rise

Rates are headed higher, and that bodes poorly for growth stocks. However, we can't ignore the implosion across tech and growth. Many fallen stars are starting to find their footing again. And many babies (like dividend stocks) thrown out with the bathwater are being constructive again.

In this piece, we'll have a closer look at one dividend stock that passive-income investors may wish to consider adding to before the stock market has a chance to hit all-time highs again. With such low earnings expectations and the potential for things to go right for a change (lower-than-expected inflation numbers ahead?), the stage could be set for more relief.

Without further ado, I think Canadian banking giant **TD Bank** (TSX:TD)(NYSE:TD) is a magnificent pick-up while shares are off considerably from their respective peaks.

TD Bank: Making most of the market pullback

TD Bank is my favourite bank stock these days — not just because of its track record of prudent management practices or its modest multiple, but also because TD has been making the most of this market-wide selloff. Indeed, the financial scene has been hit pretty hard in the first half of the year. TD Bank went after Tennessee-based First Horizons in a deal worth US$13.4 billion.

TD Bank already had a significant presence in the United States. A First Horizons deal would make it as much of an American bank as a Canadian one. Though the deal is still subject to regulatory green lights, I'm a big fan of the price TD paid and the impact on long-term loan growth. First Horizons gives TD new growth horizons in the southeast U.S. region. TD's managers expect around US$610 million worth of pre-tax cost synergies. That's a big deal.

More recently, TD closed its US$1.3 billion deal to acquire investment-banking firm Cowen. That's a great deal, with the purchase price coming at around 8.1 times forward price-to-earnings multiple. TD expects US$300-350 million worth of synergies by the third year under the TD umbrella.

The bottom line for passive-income investors

TD has been wheeling and dealing amid a harsh environment. With rates rising, the bank also stands to see its net interest margins expand meaningfully relative to many peers, given its heavy deposit base. With a 4.3% yield, I view TD as a must-own passive-income pick for long-term investors.

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