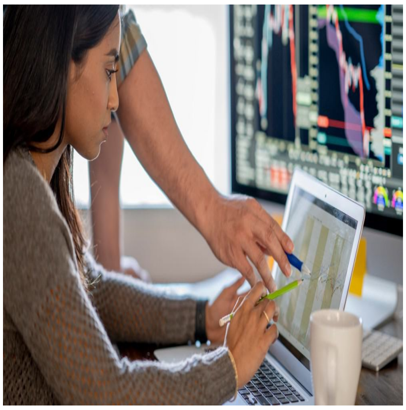

RRSP Investors: 1 Cheap TSX Dividend Stock to Buy Now and Own for 35 Years

Description

The market is starting to recover from the 2022 correction, but Registered Retirement Savings Plan (RRSP) investors can still find top TSX dividend stocks to buy at undervalued prices for self-directed retirement portfolios.

TD Bank

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank with a market capitalization of $161 billion. The stock is down considerably from the 2022 high of $109. At the time of writing, TD trades for $88 and dipped below $80 last month.

The pullback appears overdone when you look at the results for the first half of the year and the company's growth plans. TD earned adjusted net income of $7.55 billion in fiscal Q1 and Q2 2022 compared to $7.16 billion in the same period last year.

The bank built up a war chest of excess cash during the pandemic to protect against a potential wave of loan defaults. The losses never materialized thanks to aggressive aid programs put in place by the government to help businesses and households pay their bills and loans.

TD is now using the extra funds to make two acquisitions in the United States. The purchase of **First Horizon** for US$13.4 billion will add more than 400 branches and will make TD a top-six bank in the American market. First Horizon's operations are primarily located in the southeast states. TD's existing operations run down the east coast of the country from Maine to Florida, so the deal makes sense.

On the investment banking side, TD is buying **Cowen** for US$1.3 billion to increase its capital markets presence in the United States. Cowen will merge with TD Securities to form a full-service investment bank.

Investors should see revenue and profit growth expand in the coming years as a result of the two deals.

Risks

Investors sold bank stocks in the past few months due to rising fears that a severe recession could be on the way. A steep economic downturn would reduce revenue and drive up loan losses at TD and its peers. It is true that high inflation is expected to persist for some time, even as the Bank of Canada and the United States Federal Reserve raise interest rates to cool off the economy and ideally reduce inflation to the target rate of 2-3% per year.

Households are already allocating more income and savings to pay for food, gasoline, and utilities. A surge in the mortgage payments caused by rising interest rates could put some condo and home owners in a position where they would have to sell. Property prices are already falling. If panic selling hits the housing market and prices fall to the point where the homes are worth less than the amount people owe their lenders, there could be trouble for TD and the other Canadian banks that hold significant mortgage loans on their books.

A sharp 50% housing crash isn't impossible, but the more likely scenario will be a measured decline in home prices that won't put the banks at too much risk. As long as the predicted recession is mild and not too long, the jobs market should hold up well, and that would support the property market.

Should you buy TD Bank stock now?

TD looks undervalued at the current share price, even with some economic headwinds on the way. The board raised the dividend by 13% late last year, and investors should see another generous increase for 2023.

Long-term investors have done well by buying TD stock on big dips. A $10,000 investment in TD shares 25 years ago would be worth about $200,000 today with the dividends reinvested.

If you have some cash to put to work in a self-directed RRSP, this stock deserves to be on your radar.

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