Want to Buy the Dip? This Bank Stock Is a Smart Buy

Description

TD Bank (TSX:TD) looks oversold right now for patient Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) investors.

Overview

TD (TSX:TD) is Canada's second-largest bank with a current market capitalization of $156 billion. The bank is well known for its Canadian retail banking and wealth management operations. However, TD actually operates more branches south of the border and is planning to get a lot bigger in the United States.

TD is in the process of making two large acquisitions. The purchase of **First Horizon** for US$13.4 billion will add more than 400 branches in the southeastern part of the country and will make TD a top-six bank in the American market.

TD's capital markets operation has historically been smaller than that of its peers, but the group is also going to expand. The bank has agreed to buy **Cowen**, a U.S. investment bank, for US$1.3 billion.

Earnings

TD generated adjusted net income of $3.8 billion for the fiscal third quarter (Q3) of 2022 compared to $3.6 billion in the same quarter last year. For the first nine months of fiscal 2022, the bank generated adjusted net income of $11.36 billion compared to $10.8 billion in the same period last year. This puts TD on track to beat the full-year 2021 results.

Dividends

TD raised the dividend by 13% for fiscal 2022, and investors should see a decent hike in the distribution for 2023 based on the solid 2022 results. TD is one of Canada's best dividend-growth stocks with a compound annual increase in the distribution of about 11% since the mid-1990s. That's important for investors to consider when evaluating the stock as a pick for TFSA passive income or RRSP total returns.

TD stock currently provides an annualized yield of 4%.

Returns

Long-term investors have done well with TD stock in their retirement portfolios. A $10,000 investment in TD shares 25 years ago would be worth about $160,000 today with the dividends reinvested. TD trades near $86 per share at the time of writing compared to $109 earlier this year, so investors have a chance to buy the stock on a big pullback.

Risks

Investors are concerned that rising interest rates will trigger a deep recession, as households that are already struggling with high food and gas prices get hit with a big jump in mortgage costs. This will force people to cut discretionary spending and use up savings. Businesses will likely reduce staff to adjust to lower demand and that could lead to higher loan defaults. If unemployment surges and the housing market plunges due to a wave of listings, prices could fall to the point where people owe more than the market value of the properties. In that scenario, TD and its peers would likely take a hit.

At this point, the jobs market remains robust and bank executives say people and companies are still sitting on high levels of savings. This should help offset the negative impact of rising rates in the next few quarters and moderate the extent of the economic downturn. Assuming we see a mild and short recession, as is broadly expected by economists, TD should weather the storm in good shape.

Is TD stock a buy?

Additional volatility should be expected in the near term, but TD now looks oversold and should deliver solid long-term returns for patient investors. If you have some cash to put to work, this stock deserves to be on your radar.

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