



## 4 Things to Know About TD Stock in November 2022

### Description

Bank stocks generally outperform in rising-rate environments. This is because their net interest margin increases during these times, ultimately boosting the bottom line. However, this time, it's different. TSX bank stocks have notably underperformed, losing 20% this year. Such a drop amid the interest rate hike streak is quite noteworthy. However, a combination of higher inflation and rate hikes has created a significant risk of a recession, which has weighed on bank stocks this year.

Canada's second-largest bank, **Toronto-Dominion Bank** ([TSX:TD](#)), is my top pick among the Big Six Canadian banks. Here are four key points for TD investors.

### Scale and diversification

Toronto-Dominion Bank has a significant presence south of the border, which is growing faster than its Canadian retail banking. It derived nearly 45% of its net income from the U.S. in the latest reported quarter — the biggest for any Canadian bank. TD Bank also has the highest market share when it comes to total deposits in Canada. Such a scale and diversification bode well for its earnings stability in the long term.

### Financial growth

In the last 10 years, TD has increased its revenues and net income by 6% and 9%, compounded annually, respectively. Banks do not show above-average earnings growth like tech stocks, but what matters more is their earnings stability.

Such decent earnings growth created remarkable returns for shareholders. In the same period, TD stock returned 12% compounded annually, including dividends, which is in line with its peers. In the same period, the **TSX Composite Index** returned 6%, compounded annually.

Like peers, TD recorded higher provisions for loans that could go bad in the future. In the last nine months, TD has set aside \$450 million for provisions. Higher inflation and rate hikes hamper borrowers'

loan-repayment capacity, resulting in loan losses. However, TD will likely be better placed compared to its peers because of its superior credit quality. At the end of fiscal third quarter (Q3), TD had a common equity tier-one ratio of 14.9% — the highest among its peers. The ratio shows the bank's capacity to resist economic shocks.

## Dividends

TD's earnings visibility facilitates consistent [dividend](#) payments. It has paid a dividend for the last 164 consecutive years, underlining its dividend reliability. TD gives away 40-50% of its earnings as dividends, which is in line with peer Canadian banks.

It is currently trading at a dividend yield of 4%. That means \$10,000 invested in TD stock would generate \$400 in dividends yearly.

## Valuation

TD stock is trading 18% lower from its all-time highs in February this year. Even though the latest inflation data triggered a brief rally last week, bank stocks do not seem fully recovered just yet. Rate-hike woes and recession worries could continue to mar [bank stocks](#) for some more time. TD stock is currently trading 11 times its earnings and 1.6 times its book value. That's largely in line with the peers.

Considering TD's large U.S. presence which could be a key growth driver and superior credit quality, TD stock could outperform in the long term.

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1. Bank Stocks
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