



## Is TD Stock a Buy Today?

### Description

**TD Bank** ([TSX:TD](#)) stock is rebounding after a steep decline. This has investors wondering if TD might be good to buy for a [Tax Free Savings Account](#) (TFSA) or [Registered Retirement Savings Plan](#) (RRSP) portfolio right now.

### TD Bank earnings

TD generated solid results in the fiscal third quarter (Q3) of 2022 and is on track to top the full-year 2021 earnings. Adjusted net income in fiscal Q3 came in at \$3.8 billion compared to \$3.6 billion in the same period last year. In the first nine months of fiscal 2022, TD generated adjusted net income of \$11.36 billion compared to \$10.8 billion in 2021.

Adjusted return on equity remained strong at 15.9% through the first three quarters of the year — slightly higher than the result over the same timeframe in 2021. TD remains well capitalized with a common equity tier-one (CET1) ratio of 14.9%. In fact, this means TD is sitting on significant excess cash.

### Growth

TD is using its cash hoard to make two strategic acquisitions in the United States. The US\$13.4 billion takeover of **First Horizon** will add more than 400 branches in the southeastern part of the country. TD already has an extensive retail network of branches that runs from Maine down the east coast of the United States to Florida. Once the deal closes, TD will be a top-six bank in the American market. This will give it the scale it needs to better compete in the U.S. banking sector.

TD is also buying **Cowen**, an investment bank, for US\$1.3 billion. The move will enhance TD's capital markets operations.

Investors might be concerned that TD is spending too much money as the economy appears headed for a recession. Management says the CET1 ratio will still be about 11% after the closing of the two

deals. The government requires the Canadian banks to have a CET1 ratio of at least 10.5%, so TD should still be adequately capitalized to ride out a downturn.

## Dividends

TD raised the dividend by 13% for fiscal 2022. The payout ratio was 42.5% for fiscal Q3, so TD remains well within its target payout range of less than 50%. Investors should see another decent increase for 2023 based on the solid fiscal 2022 results.

TD has a solid track record of dividend growth. The compound annual growth rate is better than 10% over the past 25 years.

## Risks

TD stock trades near \$91 per share at the time of writing. That's the highest since early June but still down from the 2022 peak around \$109. Investors are trying to figure out if a recession is on the way and how harmful it could be for bank earnings.

In a worst-case scenario, the Bank of Canada and the U.S. Federal Reserve will raise interest rates to the point where consumers will dramatically slash discretionary spending and force businesses to cut large numbers of employees. The surge in unemployment would likely result in a jump in bankruptcies as households that are already struggling with high food and fuel costs are unable to cover debt payments. Higher interest rates are driving up mortgage costs. The longer rates remain elevated, the greater the risk of a meltdown in property prices.

TD has a large residential mortgage portfolio. If enough property owners default, house prices could fall below the amounts owed on the properties. In this scenario, the bank would be in for a rough ride.

That being said, the current forecast from most economists is for a short and mild recession next year.

## Should you buy TD stock now?

Ongoing volatility should be expected in the coming quarters as the impacts of soaring interest rates start to take hold. However, investors with a buy-and-hold strategy might want to start nibbling on TD stock at this level. The dividend should be safe and buying TD on big pullbacks has historically proven to be a savvy decision.

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#### **Date**

2025/08/13

#### **Date Created**

2022/11/23

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