



Could TD Stock Be a Big Winner in 2023?

Description

TD ([TSX:TD](#)) has a long history of generating attractive total returns for patient investors. The [market correction](#) of 2022 sent the share price into a meaningful pullback, and investors who missed the big rebound off the 2020 crash are wondering if this is a good time to add TD stock to their Tax-Free Savings Account (TFSA) or [Registered Retirement Savings Plan](#) (RRSP) portfolios.

TD Bank overview

TD is Canada's second-largest bank with a current [market capitalization](#) of close to \$163 billion. The bank is widely known for having a solid Canadian retail banking business with a large mortgage portfolio and strong wealth management operations. TD built up its American presence through acquisitions over the past 20 years with deals that created a string of branches running from Maine right down the east coast to the sunshine state. TD's U.S. ambitions have not changed. In fact, the bank is getting much larger south of the border thanks to two more deals that it announced in 2022.

TD is using excess cash it built up during the pandemic to buy **First Horizon** for US\$13.4 billion. The purchase adds more than 400 branches primarily located in the southeastern states. TD is also increasing its capital markets capabilities with its purchase of **Cowen**, an investment bank, for US\$1.3 billion.

Earnings

TD's fiscal 2022 results topped 2021, despite economic headwinds that built up through the second half of the year. The bank reported adjusted net income of \$15.4 billion for fiscal 2022 compared to \$14.6 billion in 2021.

TD said it expects its adjusted earnings per share (EPS) to hit or exceed its 7-10% growth target in fiscal 2023. This should help make investors more comfortable given the macroeconomic and geopolitical uncertainties.

Dividends

TD pays a quarterly dividend of \$0.96 per share. The bank increased the distribution by 13% for fiscal 2022 and another generous hike should be on the way at some point this year.

TD raised the payout by a compound annual rate of better than 10% over the past 25 years. At the time of writing, investors can pick up a 4.3% dividend yield. TD currently offers a 2% discount on shares purchased through the dividend-reinvestment plan (DRIP).

TD stock now trades for close to \$89. That's above the 2022 low around \$78, but still down significantly from the \$109 it hit early last year. Investors are still concerned that soaring interest rates could cause more economic damage than economists predict. Risks are certainly present, especially if unemployment spikes and the banks get hit with a wave of mortgage defaults.

For the moment, economists widely expect a short and mild recession to occur in Canada and the United States.

Is TD stock a buy?

TD trades for close to 9.5 times trailing 12-month earnings. This looks cheap considering the bank's positive outlook for earnings growth in fiscal 2023. Ongoing volatility should be expected until there is more clarity how deep a recession will be, if one occurs.

However, investors with a buy-and-hold strategy might want to consider adding TD stock to their TFSA or RRSP portfolios while it remains out of favour.

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