



TD Stock: Is it a Good Investment Today?

Description

TD Bank ([TSX:TD](#)) has been on an upward trend since last July. Investors who missed the rally off the 2022 [market correction](#) are wondering if TD stock remains [undervalued](#) and is good to buy right now for a self-directed Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolio.

TD Bank overview

TD is Canada's second-largest bank with a current market capitalization of \$170 billion. The business is known for its strong retail banking operations in Canada, but TD actually has more branches south of the border, and the American business is getting a lot larger this year.

TD is in the process of closing two strategic acquisitions in the United States. The \$13.4 billion purchase of **First Horizon** 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 expects the deal to close by the middle of 2023. The move extends a streak of deals over the past two decades that built up a strong retail banking presence in the United States that currently runs from Maine down the east coast to Florida.

TD's other ongoing deal is the US\$1.3 billion purchase of **Cowen**, an investment bank. The acquisition will bolster TD's capital markets operations.

TD built up a significant cash surplus during the pandemic and is using the funds to make the acquisitions.

Earnings

TD is scheduled to report fiscal first-quarter (Q1) 2023 earnings on March 2. The bank delivered a solid performance in fiscal 2022, despite economic headwinds through the second half of last year. TD reported fiscal 2022 adjusted net income of \$15.4 billion compared to \$14.6 billion in fiscal 2021.

Management expects adjusted earnings to grow by 7-10% in 2023. Based on this outlook the drop in the share price from \$109 early last year looks overdone.

Dividends

TD has a good track record of increasing the dividend. The compound annual dividend-growth rate is better than 10% over the past 25 years. This makes TD one of the top dividend-growth stocks on the [TSX](#).

Once the two U.S. deals close this year, investors should see another generous distribution increase. At the time of writing, the dividend provides a 4.1% yield.

Should you buy TD stock now?

Recession fears that hit bank stocks through most of last year are still present, but economists broadly expect an economic downturn in Canada and the United States to be short and mild. The jobs market remains robust and inflation is falling. Higher interest rates are expected to drive up loan defaults in the coming months, but TD also generates better net interest margins at higher interest rates.

As long as there isn't a big surge in unemployment, the housing market should continue to cool down at a measured pace. However, if job losses jump meaningfully while interest rates are high, TD and its peers with large residential mortgage portfolios could feel some pain.

While additional volatility should be expected this year, TD still looks attractive at the current multiple of less than 10 times trailing 12-months earnings, based on the anticipated earnings growth. If you have some cash to put to work in a TFSA or RRSP, this stock deserves to be on your radar.

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