



Toronto-Dominion Bank (TD)

Updated August 28th, 2024 by Kay Ng

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	11.3%	Market Cap:	\$104.1B
Fair Value Price:	\$66	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/10/24
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	10/31/24
Dividend Yield:	5.0%	5 Year Price Target	\$84	Years Of Dividend Growth¹:	13
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Toronto-Dominion Bank traces its lineage back to 1855 when the Bank of Toronto was founded. The institution – formed by millers and merchants – has since blossomed into a global organization with approximately 100,000 employees and C\$1.9 trillion in assets. The bank’s core earnings primarily come from retail banking focused operations. It tends to be profitable through the economic cycle although its earnings have some sensitivity to the ups and downs of the cycle. All figures in this report are in U.S. dollars unless otherwise noted.

On November 30th, 2023, TD increased its quarterly dividend by 6.3% to C\$1.02 (an annual payout of C\$4.08), which marked its 13th consecutive dividend increase. TD reported fiscal Q3 2024 earnings results on August 22nd, 2024. For the quarter, TD reported revenue growth of 10% year-over-year to C\$14.2 billion with a net loss of C\$181 million due primarily to setting aside ~C\$3.6 billion or C\$2.06 per share as provision for the anti-money-laundering issue. Provision for credit losses (PCL) also rose 40% to C\$1.1 billion.

The adjusted metrics likely provide a better picture of TD’s normal earnings power. The adjusted revenue climbed 8% to C\$14.2 billion, and the adjusted net income was essentially flat at C\$3.6 billion, leading to an adjusted diluted earnings per share (“EPS”) of C\$2.05, up 5.0% year over year. Like its peers, the bank was being more cautious about the North American economy and set higher PCL to set aside a bigger reserve to prepare for a greater amount of bad loans. The PCL ratio as a percentage of average net loans and acceptances was 0.46%, up 11 basis points from a year ago. The adjusted return on equity (“ROE”) was 14.1%, up from 13.8% a year ago. The bank’s capital position remained solid with a common equity tier 1 ratio of 12.8%, down from 15.2% a year ago. Because of the recent money laundering scandal (which is not the first among North American banks), the bank will pay a penalty. This is weighing on the stock in the near term, and we believe this will be a temporary setback for TD.

Fiscal year to date, adjusted revenue rose 8 % to C\$41.9 billion, and adjusted EPS was flat at C\$6.09. Total assets rose 4% to C\$1,967 billion, and total deposits climbed 5% to C\$1,221 billion. We increased our fiscal 2024 EPS estimate slightly to US\$5.78 per share due to a weaker US\$ against the C\$.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.75	\$3.44	\$3.65	\$4.30	\$4.87	\$5.07	\$4.16	\$6.17	\$6.23	\$5.89	\$5.78	\$7.38
DPS	\$1.69	\$1.61	\$1.63	\$1.80	\$2.03	\$2.17	\$2.31	\$2.51	\$2.75	\$2.84	\$3.00	\$3.83
Shares²	1,845	1,856	1,857	1,840	1,828	1,812	1,816	1,822	1,814	1,791	1,749	1,737

TD’s medium-term goal is to grow adjusted EPS by 7-10% per year. However, the foreign exchange fluctuation between the C\$ and US\$ will impact the effective growth rate. That said, TD’s EPS performance has been stable in the last decade despite forex volatility. From 2014 to 2023, the bank increased its EPS by 5.1% per year (and DPS by 5.9%). Fiscal year 2020 was one of those abnormal years with a pandemic triggering a decline in TD earnings. Results rebounded strongly

¹ Years of dividend growth in C\$

² Shares in millions



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in the subsequent year. After TD maintained its quarterly dividend for seven consecutive quarters, it raised its dividend as soon as the regulator lifted the ban as a safety measure against pandemic-linked disruptions to the economy. We estimate TD can grow its EPS and DPS by 5.0% per year through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.0	11.5	11.8	13.2	12.5	11.3	11.5	12.3	11.6	10.3	10.3	11.4
Avg. Yld.	3.5%	4.0%	3.3%	3.1%	4.1%	3.9%	4.8%	4.0%	3.7%	4.5%	5.0%	4.6%

From 2014-2023, TD's average price-to-earnings ratio (P/E) was 11.9, while its average P/E was 11.4 from 2019-2023. We choose the slightly lower P/E of 11.4 to be more conservative in today's higher risk macro environment. The current ratio of 10.3 makes the stock slightly undervalued. TD's yield likely won't stray far away from the 4% range in the long run. As a Canadian stock, TD's dividends may be subject to a 15% dividend withholding tax for U.S. investors. This tax can potentially be avoided by investing in TD through a retirement account.

Safety, Quality, Competitive Advantage, & Recession Resiliency

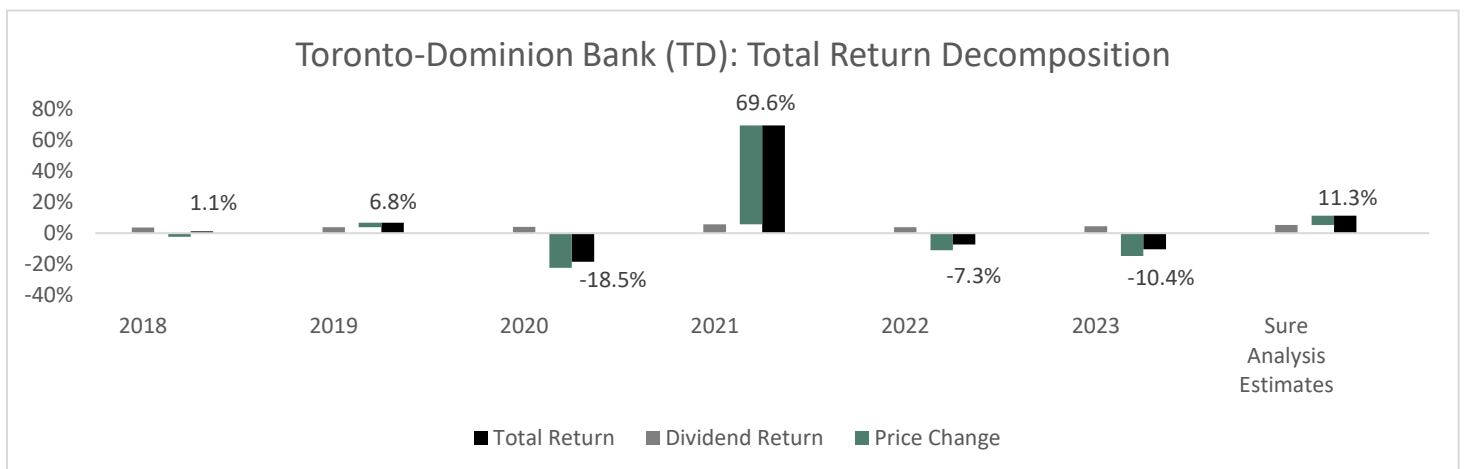
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	45%	47%	45%	42%	42%	43%	56%	41%	44%	48%	52%	52%

During the Great Recession more than a decade ago, TD increased its dividend every year (in Canadian dollars), except for fiscal 2010 in which it maintained the dividend. During that period, its adjusted EPS also remained strong, only declining 15% in fiscal 2008. Caused by COVID-19 repercussions, global economic contractions had been a drag on bank earnings in fiscal 2020 with adjusted EPS falling about 20% measured in C\$. The pandemic disruptions to the economy have been less severe thanks partly to government support programs. TD normally has a payout ratio of under 50%, though it is forecast to eclipse this somewhat in 2024. In fiscal 2020, like its peers, its payout ratio was elevated due to COVID-19 impacts. The bank's competitive advantage is its focus on retail banking in Canada and in the U.S. This means the stock's performance will be closely related to the health of the North American economy, for which there are worries of a recession if interest rates continue to rise or remain elevated. Still, as a leading North American bank, TD stands as one of the strongest banks that can navigate through any economic hardship.

Final Thoughts & Recommendation

We forecast 11.3% in total returns annually over the next five years, consisting of a 5.0% dividend yield, 5.0% earnings-per-share growth, and a 2.1% tailwind from a higher price-to-earnings ratio. We maintain a buy rating on TD.

Total Return Breakdown by Year



Disclosure: This analyst has a position in the security discussed in this research report.



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,201	25,062	25,641	27,405	29,949	30,644	32,197	33,595	35,544	39,220
SG&A Exp.	11,049	9,888	9,429	9,932	10,589	10,566	10,993	11,990	12,656	15,500
D&A Exp.	1,038	1,007	1,008	999	1,081	1,057	1,593	1,642	1,372	1,416
Net Profit	7,136	6,375	6,653	7,949	8,753	8,779	8,848	11,365	13,537	7,990
Net Margin	26.2%	25.4%	25.9%	29.0%	29.2%	28.6%	27.5%	33.8%	38.1%	20.4%
Free Cash Flow	23,021	27,667	27,606	19,645	3,969	-418	169,856	38,947	29,123	-49,760
Income Tax	1,388	1,227	1,616	1,723	2,473	2,058	857	2,878	3,096	2,348

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	858	839	877	997	1017	1075	1288	1395	1409	1415
Cash & Equiv. (\$B)	42	35	43	43	27	23	128	134	107	76
Accounts Rec. (\$B)	7	7	7	8	9	9	10	9	11	14
Goodwill (\$B)	15	14	14	15	14	15	14	15	15	15
Total Liab. (\$B)	807	788	822	938	956	1008	1216	1314	1327	1334
Accounts Payable	20,363	20,851	17,307	29,878	26,392	23,013	32,168	30,022	23,590	31,600
Long-Term Debt	168,531	32,185	162,659	182,378	201,866	213,232	189,455	202,770	270,934	286,890
Shareholder's Equity	46,864	47,646	50,809	54,140	56,439	62,201	67,442	75,945	73,575	73,220
LTD/E Ratio	3.45	0.65	3.01	3.15	3.35	3.2	2.64	2.52	3.31	3.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.8%	1.0%	0.6%
Return on Equity	15.6%	13.5%	13.5%	15.1%	15.8%	14.8%	13.7%	15.9%	18.1%	10.9%
ROIC	4.4%	4.2%	4.4%	3.5%	3.5%	3.2%	3.3%	4.2%	4.3%	2.2%
Shares Out.	1845	1854	1857	1855	1840	1827	1809	1820	1814	1824
Revenue/Share	14.74	13.52	13.81	14.78	16.28	16.77	17.80	18.46	19.60	21.50
FCF/Share	12.48	14.92	14.87	10.59	2.16	-0.23	93.91	21.4	16.06	-27.27

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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