



Toronto-Dominion Bank (TD)

Updated December 12th, 2024 by Kay Ng

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	12.6%	Market Cap:	\$93.6B
Fair Value Price:	\$62	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/10/25
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	01/31/25
Dividend Yield:	5.5%	5 Year Price Target	\$79	Years Of Dividend Growth¹:	14
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.

TD reported fiscal Q4 and full-year 2024 earnings results on December 5th, 2024. For the quarter, TD reported revenue growth of 18% year-over-year to C\$15.5 billion. Provision for credit losses (“PCL”) rose 26% to C\$1.1 billion. However, net income still climbed 27% to C\$3.6 billion. The adjusted metrics likely provide a better picture of TD’s normal earnings power. The adjusted revenue climbed 12% to C\$14.9 billion, and the adjusted net income fell 8% to C\$3.2 billion, leading to adjusted diluted earnings per share (“EPS”) of C\$1.72, down 5.5% year over year. Its PCL ratio as a percentage of average net loans and acceptances was 0.47%, up 8 basis points from a year ago. The adjusted return on equity (“ROE”) was 13.4%, up from 10.5% a year ago. The bank’s capital position remained solid with a common equity tier 1 ratio of 13.1%, down from 14.4% a year ago.

The bank ended up paying a \$3.09 billion fine for its anti-money-laundering case, but what’s really been weighing on the stock is that its near- to medium-term outlook has become blurrier. In fact, management suspended its medium-term adjusted EPS growth and return on equity (“ROE”) targets. It’s going through a strategic review, which it’ll give an update on along with medium-term financial targets in the second half of 2025 (“H2’25”). Despite all this uncertainty, the bank raised its quarterly dividend by 2.9% to C\$1.05 per share, equating an annualized payout of C\$4.20 per share. For fiscal 2024, adjusted revenue rose 9 % to C\$56.8 billion, and adjusted EPS fell 1.3% to C\$7.81. Total assets rose 5.5% to C\$2,062 billion, and total deposits climbed 5.9% to C\$1,269 billion. We initiate our fiscal 2025 EPS estimate at US\$5.56 per share.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.44	\$3.65	\$4.30	\$4.87	\$5.07	\$4.16	\$6.17	\$6.23	\$5.89	\$5.56	\$5.56	\$7.10
DPS	\$1.61	\$1.63	\$1.80	\$2.03	\$2.17	\$2.31	\$2.51	\$2.75	\$2.84	\$3.00	\$2.95	\$3.77
Shares²	1,856	1,857	1,840	1,828	1,812	1,816	1,822	1,814	1,791	1,750	1,733	1,721

TD expects to provide its medium-term adjusted EPS guidance in H2’25. Notably, 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 2015 to 2024, the bank increased its EPS by 5.5% per year (and DPS by 7.2%). Fiscal year 2020 was one of those abnormal years with a pandemic triggering a decline in TD earnings. Results rebounded strongly in the subsequent year. After TD maintained its quarterly dividend for seven consecutive quarters, it

¹ Years of dividend growth in C\$

² Shares in millions



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raised its dividend as soon as the regulator lifted the ban as a safety measure against pandemic-linked disruptions to the economy. We continue to estimate TD's EPS and DPS growth to be 5.0% per year through 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.5	11.8	13.2	12.5	11.3	11.5	12.3	11.6	10.3	10.3	9.6	11.2
Avg. Yld.	4.0%	3.3%	3.1%	4.1%	3.9%	4.8%	4.0%	3.7%	4.5%	4.8%	5.5%	4.7%

From 2015-2024, TD's average price-to-earnings ratio (P/E) was 11.6, while its average P/E was 11.2 from 2020-2024. We choose the lower P/E of 11.2 to be more conservative. The current ratio of 9.6 makes the stock slightly undervalued. TD's yield likely won't stray far away from the 4.5% 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

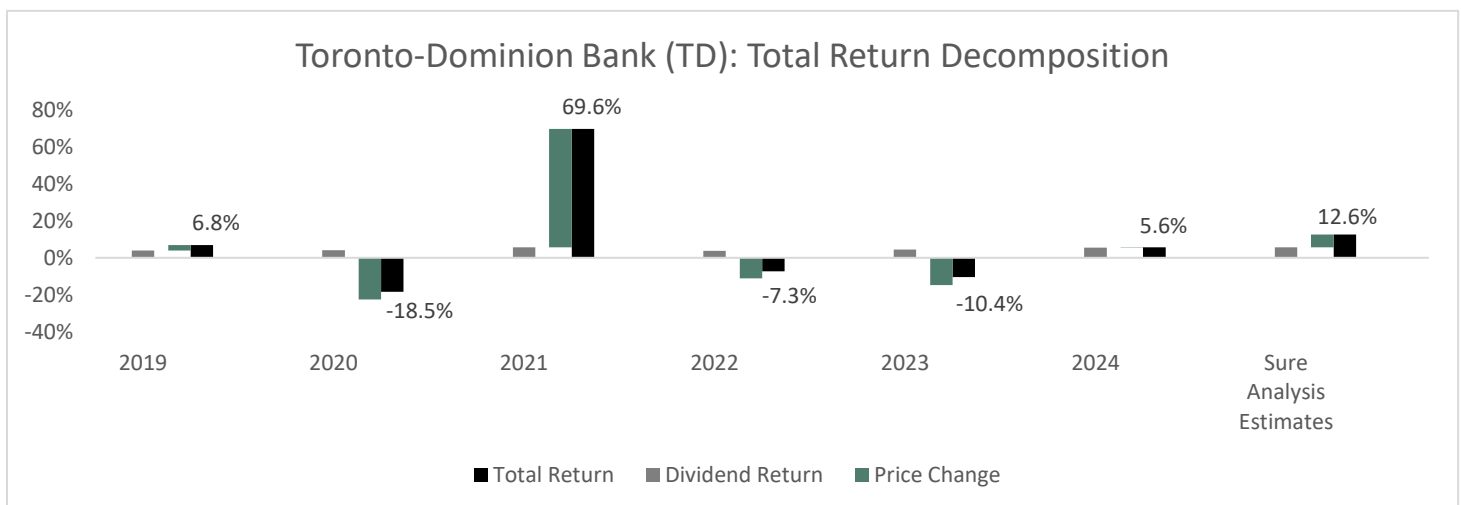
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	47%	45%	42%	42%	43%	56%	41%	44%	48%	54%	53%	53%

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%. 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, and its growth outlook in North America. Still, as a leading North American bank, TD stands as one resilient bank that can navigate through hardships.

Final Thoughts & Recommendation

We forecast 12.6% in total returns annually over the next five years, consisting of a 5.5% dividend yield, 5.0% earnings-per-share growth, and a 3.1% tailwind from a higher price-to-earnings ratio. We maintain a buy rating on TD, particularly for income-focused and long-term accounts.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	25,062	25,641	27,405	29,949	30,644	32,197	33,595	35,544	39,220	41,110
SG&A Exp.	9,888	9,429	9,932	10,589	10,566	10,993	11,990	12,656	15,500	18,290
D&A Exp.	1,007	1,008	999	1,081	1,057	1,593	1,642	1,372	1,416	1,489
Net Profit	6,375	6,653	7,949	8,753	8,779	8,848	11,365	13,537	7,990	6,497
Net Margin	25.4%	25.9%	29.0%	29.2%	28.6%	27.5%	33.8%	38.1%	20.4%	15.8%
Free Cash Flow	27,667	27,606	19,645	3,969	-418	169,856	38,947	29,123	-49,760	38,770
Income Tax	1,227	1,616	1,723	2,473	2,058	857	2,878	3,096	2,348	1,977

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (\$B)	839	877	997	1017	1075	1288	1395	1409	1415	1482
Cash & Equiv. (\$B)	35	43	43	27	23	128	134	107	76	128
Accounts Rec. (\$B)	7	7	8	9	9	10	9	11	14	13
Goodwill (\$B)	14	14	15	14	15	14	15	15	15	16
Total Liab. (\$B)	788	822	938	956	1008	1216	1314	1327	1334	1400
Accounts Payable	20,851	17,307	29,878	26,392	23,013	32,168	30,022	23,590	31,600	28,660
Long-Term Debt	32,185	162,659	182,378	201,866	213,232	189,455	202,770	270,934	286,890	327,590
Shareholder's Equity	47,646	50,809	54,140	56,439	62,201	67,442	75,945	73,575	73,220	74,970
LTD/E Ratio	0.65	3.01	3.15	3.35	3.2	2.64	2.52	3.31	3.54	3.96

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.8%	1.0%	0.6%	0.5%
Return on Equity	13.5%	13.5%	15.1%	15.8%	14.8%	13.7%	15.9%	18.1%	10.9%	7.9%
ROIC	4.2%	4.4%	3.5%	3.5%	3.2%	3.3%	4.2%	4.3%	2.2%	1.7%
Shares Out.	1854	1857	1855	1840	1827	1809	1820	1814	1824	1760
Revenue/Share	13.52	13.81	14.78	16.28	16.77	17.80	18.46	19.60	21.50	23.36
FCF/Share	14.92	14.87	10.59	2.16	-0.23	93.91	21.4	16.06	-27.27	22.03

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

Disclaimer

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