



# Toronto-Dominion Bank (TD)

Updated December 18<sup>th</sup>, 2021 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	9.9%	<b>Market Cap:</b>	\$134B
<b>Fair Value Price:</b>	\$77	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	01/07/22
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Dividend Payment Date:</b>	01/31/22
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$100	<b>Years Of Dividend Growth<sup>1</sup>:</b>	9
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase<sup>1</sup>:</b>	3.2%

## 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 90,000 employees and C\$1.7 trillion in assets. The bank produces more than C\$40 billion in revenue each year. All figures in this report are in U.S. dollars unless otherwise noted.

TD reported fiscal Q4 and 2021 earnings results on 12/02/21. Against fiscal Q4 2020, revenue fell 8% to C\$10.9 billion, while adjusted net income climbed 30% to C\$3,877 million. Adjusted earnings-per-share (“EPS”) rose 31% to C\$2.09. The bank saw momentum in loan and deposit volumes and wealth assets in its Canadian Retail segment, while posting record U.S. Retail results with support from strong credit performance and sustained consumer recovery.

The fiscal year results show a bigger picture. Revenue declined by 2% year over year to C\$42.7 billion, adjusted net income rose 47% to C\$14,649 million, while adjusted EPS climbed 48% to C\$7.91.

The bank’s capital position was strong, ending fiscal 2021 with a common equity tier 1 ratio of 15.2%, up from 13.1% at the end of fiscal 2020. It’s prudent to expect an uneven economic recovery as governments constantly weigh a careful balance between supporting the economy and containing COVID-19, especially with more virulent variants out and about. After the regulator loosened its restrictions, the Big Six Canadian banks raised their dividends. TD, in particular, raised its quarterly dividend by 12.7% to C\$0.89. We initiated our 2022 EPS estimate at US\$6.29 per share.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.75	\$3.50	\$3.75	\$3.44	\$3.65	\$4.30	\$4.87	\$5.07	\$4.16	\$6.17	<b>\$6.29</b>	<b>\$8.22</b>
<b>DPS</b>	\$1.44	\$1.59	\$1.69	\$1.61	\$1.63	\$1.80	\$2.03	\$2.17	\$2.31	\$2.51	<b>\$2.78</b>	<b>\$3.72</b>
<b>Shares<sup>1</sup></b>	1,832	1,835	1,845	1,856	1,857	1,840	1,828	1,812	1,816	1,822	<b>1,820</b>	<b>1,811</b>

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 2012 to 2021, the bank increased its EPS by 5.7% per year. From 2016-2021, its EPS growth was 11%. Fiscal 2020 is one of those abnormal years with a pandemic triggering a decline in TD earnings. Results rebounded strongly in the subsequent year. The North American economy has fared better than expected, assisted by COVID-19 vaccine rollouts. We assume a 5.5% growth rate through 2027. After TD maintained its quarterly dividend for 7 consecutive quarters, it raised its dividend as soon as the prudent regulator lifted the ban as a safety measure against pandemic disruptions to the economy. We project a dividend growth rate of 6% through 2027.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	11.0	11.5	13.0	11.5	11.8	13.2	12.5	11.3	11.5	12.3	<b>11.6</b>	<b>12.2</b>
<b>Avg. Yld.</b>	3.4%	3.4%	3.5%	4.0%	3.3%	3.1%	4.1%	3.9%	4.8%	4.0%	<b>3.8%</b>	<b>3.7%</b>

<sup>1</sup> Years of dividend growth in C\$; TTM dividend per share over prior TTM dividend per share in C\$; Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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From 2012-2021, TD's average price-to-earnings ratio (P/E) was about 12.0, while its average P/E was 12.2 from 2017-2021. We think a fair P/E of 12.2 is more suitable for TD's above-average yield and quality business. The current ratio of 11.6 makes the stock fairly valued. TD's yield likely won't stray far away from the 3-4% 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

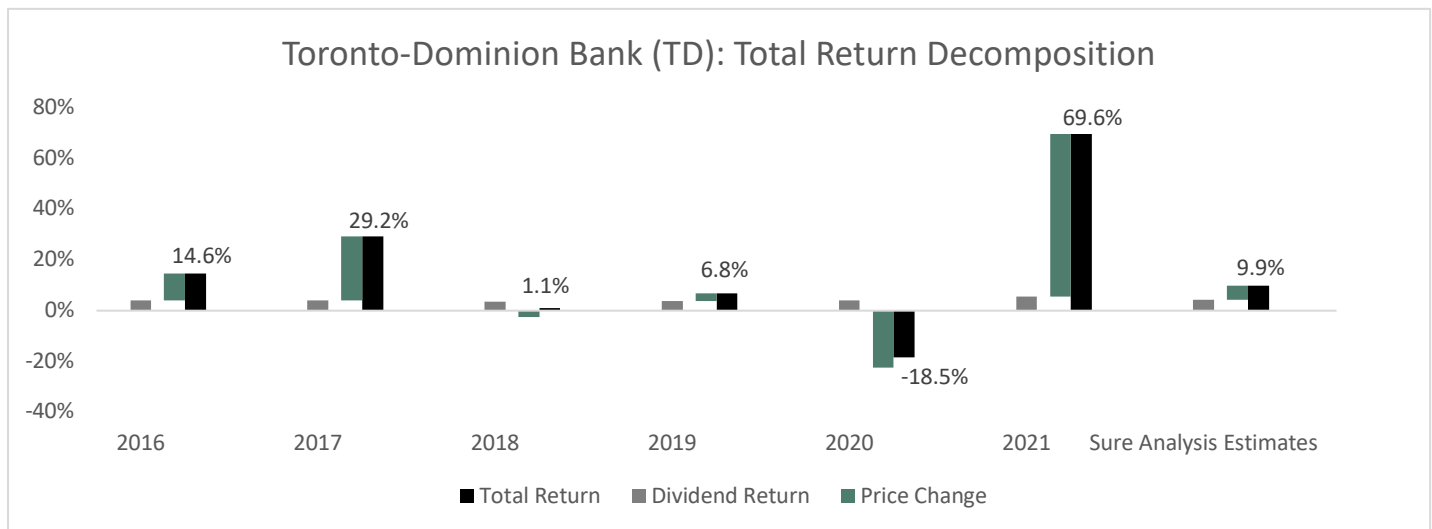
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	45%	45%	47%	45%	42%	42%	43%	56%	41%	44%	45%

During the Great Recession about 11 years ago, the quality stock increased its dividend every year (in the local currency of Canadian dollars), except for fiscal 2010 in which it maintained the dividend. During that period, its adjusted EPS also remained strong, only declined 15% in fiscal 2008, and began to rebound in fiscal 2009. Caused by COVID-19 repercussions, global economic contractions had been a drag on bank earnings in fiscal 2020 with adjusted EPS falling about 20% 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% that's more conservative than most other big Canadian banks. 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, which, despite economic shutdowns and relatively high unemployment to historic levels, proved to be more resilient among advanced economies during 2020. Specifically, TD Economics reported the U.S. economy contracted 3.5% and the Canadian GDP shrinking about 5.4% versus the U.K. and the European Union's GDP declines of 9.9% and 6.4%, respectively. As the fifth-largest North American bank, TD stands as one of the strongest banks through the pandemic.

## Final Thoughts & Recommendation

We forecast 9.9% in total returns annually over the next five years, consisting of a yield of 3.8%, 5.5% earnings-per-share growth, and a 1.0% tailwind from a higher price-to-earnings ratio. TD earns a buy rating from Sure Dividend, especially on dips.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	25130	25965	27201	25062	25641	26825	29949	30496	31019	32952
SG&A Exp.	10302	11175	11049	9888	9429	9934	10589	11470	11876	12946
D&A Exp.	966	1019	1038	1007	1008	999	1081	1057	1593	1642
Net Profit	6326	6410	7136	6375	6653	7949	8753	8779	8848	11365
Net Margin	25.2%	24.7%	26.2%	25.4%	25.9%	29.6%	29.2%	28.8%	28.5%	34.5%
Free Cash Flow	12194	26027	23021	27667	27606	19645	3969	-418	169856	38947
Income Tax	1080	1113	1388	1227	1616	1723	2473	2058	857	2878

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	811.3	822.4	857.5	839.0	877.3	997.0	1017.6	1074.9	1288.0	1394.9
Cash & Equivalents	25133	30684	41570	34834	42951	42993	27024	23123	128051	133861
Accounts Receivable	7316	6591	7028	7120	7250	7699	8598	8770	9859	9150
Goodwill & Int. Ass.	14531	15060	15102	14440	14387	14634	14478	14794	14467	14811
Total Liabilities	762.3	773.4	807.5	788.1	822.0	938.3	956.5	1008.3	1216.3	1314.4
Accounts Payable	10125	12255	20363	20851	17307	29878	26392	23013	32168	30022
Long-Term Debt	62845	52979	168531	32185	162659	182378	201866	213232	30747	32274
Shareholder's Equity	44137	44342	46864	47646	50809	54140	56439	62201	67442	75945
D/E Ratio	17.27	17.44	17.23	16.54	16.18	17.33	16.95	16.21	18.03	17.31

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.8%
Return on Equity	15.2%	14.5%	15.6%	13.5%	13.5%	15.1%	15.8%	14.8%	13.7%	15.9%
ROIC	5.7%	6.0%	4.4%	4.2%	4.4%	3.5%	3.5%	3.2%	4.6%	10.6%
Shares Out.	1832	1835	1845	1856	1857	1840	1828	1812	1816	1822
Revenue/Share	13.73	14.07	14.74	13.52	13.81	14.46	16.28	16.69	17.15	18.10
FCF/Share	6.66	14.11	12.48	14.92	14.87	10.59	2.16	-0.23	93.91	21.40

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

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