



Toronto-Dominion Bank (TD)

Updated December 3rd, 2022 by Kay Ng

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	12.7%	Market Cap:	\$125B
Fair Value Price:	\$80	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/05/23
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	01/31/23
Dividend Yield:	4.2%	5 Year Price Target	\$107	Years Of Dividend Growth¹:	11
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 90,000 employees and C\$1.8 trillion in assets. The bank produces about C\$14 billion in annual net income, which primarily comes from retail banking focused businesses. All figures in this report are in U.S. dollars unless otherwise noted.

TD reported fiscal Q4 2022 earnings results on 12/01/22. Against fiscal Q4 2021, TD saw solid results at its Canadian Personal and Commercial Banking and U.S. Retail businesses despite higher provisions for credit losses that suggests a more negative macroeconomic outlook in North America. Specifically, adjusted net income increased by 5.1% to C\$4,065 million. Adjusted earnings-per-share (“EPS”) rose 4.3% to C\$2.18.

For FY2022, TD Bank’s margin and volume growth in its personal and commercial banking businesses drove revenue growth. Adjusted revenue growth of 8.1% to C\$46,170 million led to adjusted earnings rising 5.3% to C\$15,425 million, while adjusted EPS climbed 5.7% to C\$8.36, which translated to US\$6.23. Total deposits climbed 9.3% to C\$1,230 billion, while total loans increased 15.0% to C\$831 billion year over year. The bank’s capital position was strong with a common equity tier 1 ratio of 16.2%.

TD continues to work on closing the acquisition in First Horizon, which still requires regulatory approvals. TD also increased its quarterly dividend by 7.9% to C\$0.96 per share. We initiate our 2022 EPS estimate at US\$6.69 per share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.50	\$3.75	\$3.44	\$3.65	\$4.30	\$4.87	\$5.07	\$4.16	\$6.17	\$6.23	\$6.69	\$8.95
DPS	\$1.59	\$1.69	\$1.61	\$1.63	\$1.80	\$2.03	\$2.17	\$2.31	\$2.51	\$2.75	\$2.85	\$3.81
Shares¹	1,835	1,845	1,856	1,857	1,840	1,828	1,812	1,816	1,822	1,814	1,812	1,801

On February 28, 2022, TD Bank announced to acquire First Horizon, a premier regional bank with a focus on the attractive U.S. Southeast markets, for \$13.4 billion, in an all-cash deal, to accelerate its growth in North America. TD is paying 9.8 times First Horizon’s estimated 2023 fully-synergized earnings for the transaction that’s expected to close in TD’s fiscal Q1 2023. So, it’s a reasonable valuation. This acquisition would make TD a top six U.S. bank. Moreover, TD management expects the acquisition to be “immediately accretive to its adjusted EPS at closing... and over 10% accretive to its estimated 2023 adjusted EPS on a fully-synergized basis.”

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 2013 to 2022, the bank increased its EPS by 6.7% per year (and DPS by 6.3%). From 2017-2022, its EPS and DPS growth was 7.8% and 8.9%, respectively. Fiscal 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 7 consecutive quarters, it raised its dividend as soon as the prudent regulator lifted the ban as a

¹ Years of dividend growth in C\$; Shares in millions.

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safety measure against pandemic disruptions to the economy. The North American economy is now faced with high inflation and rising interest rates, but we still estimate TD can grow its EPS and DPS by 6.0% per year through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.5	13.0	11.5	11.8	13.2	12.5	11.3	11.5	12.3	11.6	10.3	12.0
Avg. Yld.	3.4%	3.5%	4.0%	3.3%	3.1%	4.1%	3.9%	4.8%	4.0%	3.7%	4.2%	3.6%

From 2013-2022, TD's average price-to-earnings ratio (P/E) was 12.0, while its average P/E was 11.8 from 2018-2022. We choose the slightly higher P/E of 12.0 for TD's above-average yield and quality business. The current ratio of 10.3 makes the stock slightly undervalued. 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

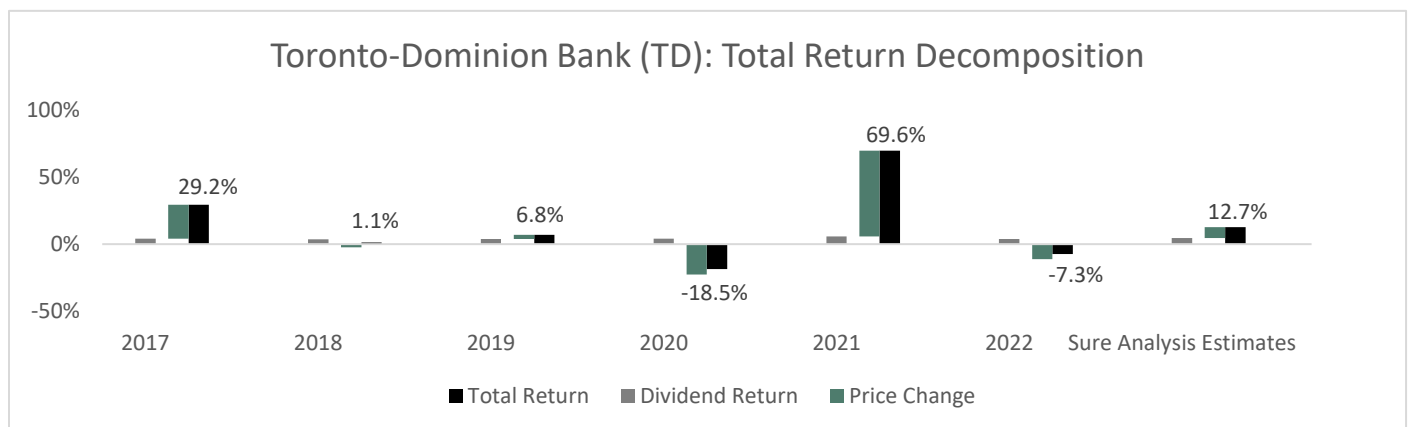
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	45%	45%	47%	45%	42%	42%	43%	56%	41%	44%	43%	43%

During the Great Recession about 12 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%. 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 rise too quickly. 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 12.7% in total returns annually over the next five years, consisting of a yield of 4.2%, 6.0% earnings-per-share growth, and a 3.2% tailwind from a higher price-to-earnings ratio. TD earns a buy rating from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	25,965	27,201	25,062	25,641	27,405	29,949	30,644	32,197	33,595	35,544
SG&A Exp.	11,175	11,049	9,888	9,429	9,932	10,589	10,566	10,993	11,990	12,656
D&A Exp.	1,019	1,038	1,007	1,008	999	1,081	1,057	1,593	1,642	1,372
Net Profit	6,410	7,136	6,375	6,653	7,949	8,753	8,779	8,848	11,365	13,537
Net Margin	24.7%	26.2%	25.4%	25.9%	29.0%	29.2%	28.6%	27.5%	33.8%	38.1%
Free Cash Flow	26,027	23,021	27,667	27,606	19,645	3,969	-418	169,856	38,947	29,123
Income Tax	1,113	1,388	1,227	1,616	1,723	2,473	2,058	857	2,878	3,096

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	822	858	839	877	997	1017	1075	1288	1395	1409
Cash & Equiv. (\$B)	31	42	35	43	43	27	23	128	134	107
Accounts Rec. (\$B)	7	7	7	7	8	9	9	10	9	11
Goodwill (\$B)	15	15	14	14	15	14	15	14	15	15
Total Liab. (\$B)	773	807	788	822	938	956	1008	1216	1314	1327
Accounts Payable	12,255	20,363	20,851	17,307	29,878	26,392	23,013	32,168	30,022	23,590
Long-Term Debt	52,979	168,531	32,185	162,659	182,378	201,866	213,232	189,455	202,770	270,934
Shareholder's Equity	44,342	46,864	47,646	50,809	54,140	56,439	62,201	67,442	75,945	73,575
LTD/E Ratio	1.11	3.45	0.65	3.01	3.15	3.35	3.2	2.64	2.52	3.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.8%	1.0%
Return on Equity	14.5%	15.6%	13.5%	13.5%	15.1%	15.8%	14.8%	13.7%	15.9%	18.1%
ROIC	6.0%	4.4%	4.2%	4.4%	3.5%	3.5%	3.2%	3.3%	4.2%	4.3%
Shares Out.	1845	1845	1854	1857	1855	1840	1827	1809	1820	1814
Revenue/Share	14.07	14.74	13.52	13.81	14.78	16.28	16.77	17.8	18.46	19.6
FCF/Share	14.11	12.48	14.92	14.87	10.59	2.16	-0.23	93.91	21.4	16.06

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

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