DSR STOCK CARD

01/04/2023

THE TORONTO-DOMINION BANK (TD.TO) (TD)

Business Model

Toronto-Dominion is one of Canada's two largest banks and operates three business segments: Canadian retail banking, U.S. retail banking, and wholesale banking. The bank's U.S. operations span from Maine to Florida, with a strong presence in the Northeast. It also has a 13% ownership stake in Charles Schwab (SCHW), a discount brokerage.

The Company in a Nutshell

- Management recently rewarded shareholders with several dividend increases.
- TD's very lean structure plays a significant role in its expansion.
- TD has a significant presence in the US compared to other Canadian banks.

Investment Thesis

Over the years, the bank has been increasing its retail focus, driven by lower-risk businesses with stable, consistent earnings. The bank enjoys number one or two market share positions for most key products in the Canadian retail segment. TD keeps things clean and simple as the bulk of its income comes from personal and commercial banking. It has substantial exposure in major cities like Toronto, Vancouver, Edmonton, and Calgary, combined with a strong presence in the US. With about a third of its business coming from the U.S., TD is the most "American" bank you'll find in Canada, with roughly 1/3 of its business coming from south of the border. If you are looking for an investment in a straightforward bank, TD should be your pick as increasing retail focus, large market share in Canadian banking, and U.S. expansion are key growth enablers for TD Bank. The 13% stake in Charles Schwab (SCHW) is another interesting growth vector.

VALUATION

Dividend Growth Rate Years 1-10: 6.00% **Terminal Dividend Growth Rate**: 6.00%

	Discount Rate (Horizontal)		
Margin of Safety	**8.00%**	**9.00%**	**10.00%**
20% Premium	$244.22	$162.82	$122.11
10% Premium	$223.87	$149.25	$111.94
Intrinsic Value	$203.52	**$135.68**	$101.76
10% Discount	$183.17	$122.11	$91.58
20% Discount	$162.82	$108.54	$81.41

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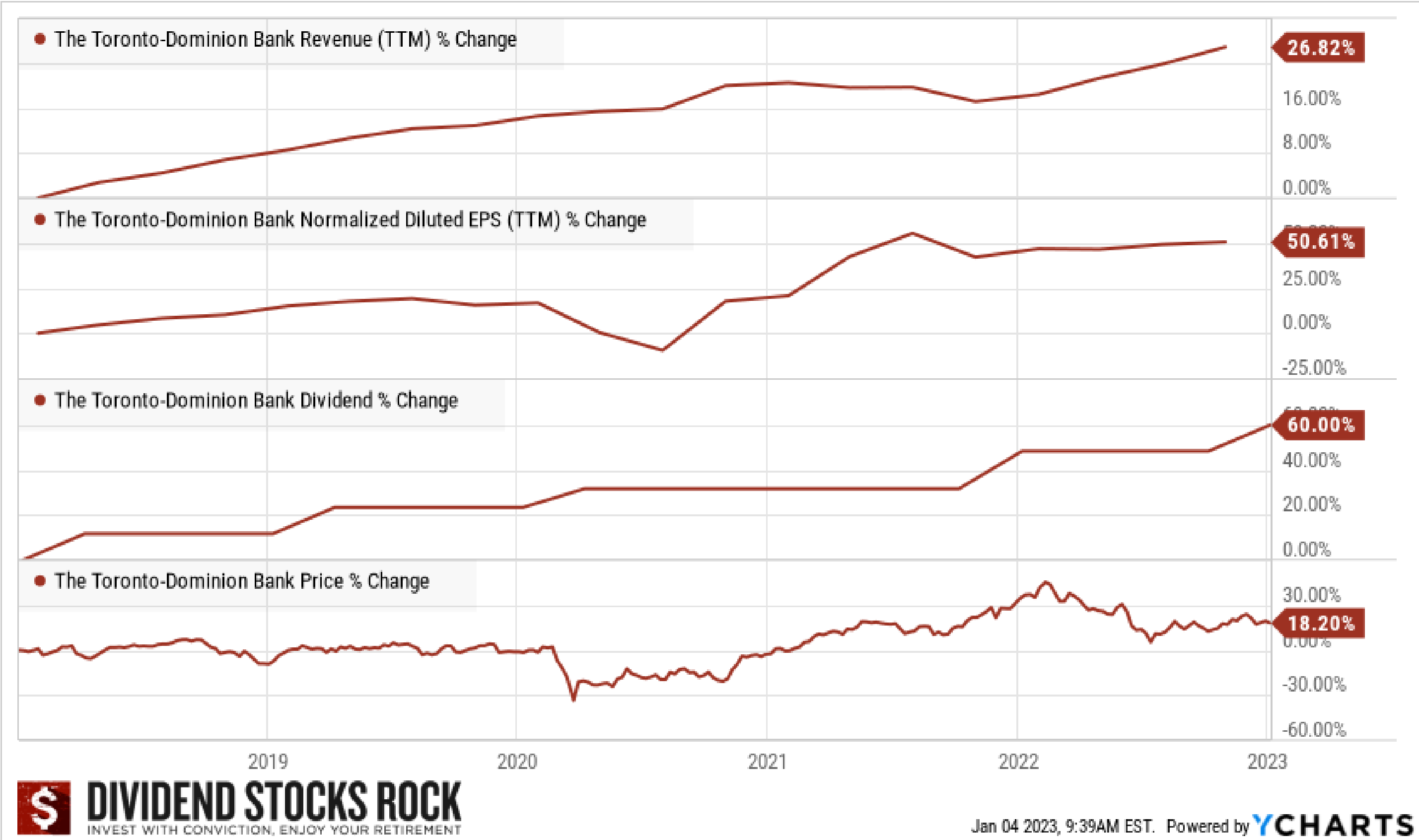

Potential Risks

The housing market has been a concern since 2012, but TD seems to be managing its loan book wisely. The Canadian economy has been remarkably resilient as well. A higher insured mortgage level in the prairies seems adequate while TD continues to ride the ever-growing downtown Toronto housing market tailwind. As interest rates rise, TD's loan book will profitability generate stronger income. However, this could also increase the risk of defaults and slow volume growth. TD must identify other growth vectors as consumers can't borrow continuously and rising interest rates may slow the economy. It is important to follow the bank's provision for credit losses which have been increasing in the latest quarter. So far, everything is under control, but a recession is still looming.

Dividend Growth Perspective

TD is a Canadian dividend aristocrat (which permits them a "pause" in the dividend increase streak). TD shareholders were lucky enough to enjoy a dividend increase in early 2020 (+6.8%), right before regulators forced a break in dividend growth. In 2021, the bank rewarded investors with a 12.7% dividend increase. It returned with a more regular increase in 2022 (+7.8%). Going forward, you can expect a mid-single-digit dividend increase as payout ratios are quite low and TD is well capitalized.