TD Bank's Stock Sees Red After Releasing Quarterly Earnings

Description

TD Bank (TSX:TD,NYSE:TD) kicked off Canadian bank earnings season this morning with a core EPS figure that came in a penny lower than expected. Core cash EPS of $1.90 missed estimates of $1.91.

In my mind, the key thing to monitor for all of the Canadian banks is loan growth as this is the area that is likely to be most impacted by the much ballyhooed housing slowdown in this country. The other possible area of concern is credit, but because of the government's involvement in Canada's mortgage market through the CMHC, credit is not the issue that it was in the U.S. housing market disaster.

TD's quarterly loan growth was strong in the U.S. and slowing, but still positive in Canada. U.S. organic loan growth measured an increase of 15% year-over-year. This compared to just 5% in Canada, which was below last quarter's reading of 6%. Business loan growth in this country grew at 14% while personal loans increased at a rate of just 3%.

It's still good, it's still good…

By no means is this a disaster, however, the Canadian figures are hardly robust. TD's geographically diversified mix looks more brilliant by the day.

Another item that garners less attention than loan growth or credit is the tax rate that not only TD, but all banks seem to get away with paying. TD's tax rate in the quarter was just 15.7%. This was slightly higher than TD's average effective tax rate over the past five fiscal years that measured just 14.5% (according to Capital IQ), but is strikingly low compared to the 25-30% rate that some companies pay.

Although highly unlikely, if the government were ever to indicate a raised eyebrow over the low tax rates that the banks pay, look out below.

Finally, the company announced a share buyback of 12 million shares. This came as a bit of a surprise to some and is likely to have helped counteract the more negative items in the report. Even with this detail thrown in, the stock is still off 0.8% in mid-afternoon trading.

The banks carry a significant weight in the S&P/TSX Composite Index which makes passive Canadian index investors especially vulnerable to any correction that our housing market may endure.

We have prepared a Special FREE Report that will clue you into the perils of investing in the Canadian index and suggests an easy to implement alternative strategy. It's called "**5 Stocks That Should Replace Your Canadian Index Fund**" and you can receive a copy at no charge – just by **clicking here**
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Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.

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