

Can TD Succeed in the United States?

Description

After **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) reported results earlier this week, it was clear that life is still good for the Canadian banks. This morning **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) provided yet more confirmation, beating street estimates by a penny per share. The bank also raised its dividend by 9%, and now yields nearly 4%.

Canadian retail banking continued to perform well, with adjusted net income of \$1.3 billion, a 5% increase over the first quarter last year. Of course the operating environment remains ominous, with concerns about an overheated housing market and sky-high consumer debt levels across Canada. But just like the other banks, TD's Canadian operations have simply kept on rolling. One nice surprise has been the launch of the new Aeroplan credit cards, in partnership with **Aimia Inc** ([TSX:AIM](#)). Both TD and Aimia, who also reported today, said that early results have exceeded expectations.

US retail banking net income also increased 5%, churning out nearly \$400 million in the quarter. Like BMO, American retail banking remains a work in progress for TD. TD has more branches in the United States than it does in Canada, yet earns three times as much money north of the border. And return on equity was higher than 40% in Canada in 2013, yet remains below 10% in the United States.

Wholesale banking (capital markets) net income was \$230 million, a nice increase of 44% over the first quarter of last year. This was still a fairly inconsequential division for TD, representing only about 10% of net income. But given the volatility of capital markets businesses, the lack of exposure at TD is generally viewed as a positive.

Looking ahead, the focus will continue to be on the United States, where TD has the most room for growth. The main problem that TD faces south of the border is a lack of appetite for loans.

Last year, TD had average deposits of nearly \$250 billion, but average loans of just over \$100 billion. This forced it to invest in lower-yielding securities. By comparison, TD has more loans than deposits in Canada.

Foolish bottom line

TD and its shareholders are counting on its U.S. operations becoming more profitable, and acting as the key engine for the bank's earnings growth. If the American economy continues to recover, then that should create a greater appetite for loans, which would give a nice boost to TD.

Despite all these challenges, TD is still in great shape with new CEO Bharat Masrani set to take the helm in November. As head of the U.S. banking operations, Mr. Masrani is well aware of the challenges that await him.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:AIM (Aimia Inc.)
3. TSX:BMO (Bank Of Montreal)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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