

## The Stock Picker's Guide to Toronto Dominion Bank for 2014

### Description

Canada's second largest bank, **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), continues to deliver solid operational and financial results, just like its top five peers. This is despite growing concerns over an overheated Canadian housing market and a saturated credit market. Not only did it report exceptional full year 2013 results, but its first quarter 2014 results defied naysayers, showing there are still ample growth opportunities in the Canadian banking market.

### Key first-quarter 2014 earnings takeaways

Toronto Dominion's first quarter 2014 net income grew 14% in comparison to the same period in 2013, on the back of higher revenue, which shot up 15% over the same period. The key drivers of this strong financial performance were solid performances from Toronto Dominion's Canadian and U.S. retail banking businesses. For the first quarter 2014, both reported a 5% increase in net income in comparison to first quarter 2013.

The rationale of Toronto Dominion's decision to increase its presence in the U.S. market was clearly vindicated by these results. The acquisition of **Target's** U.S. credit card portfolio and U.S. wealth manager Epoch are credited with being the key drivers of the growth in net income for U.S. retail banking.

But the bank's star performer was its wholesale banking business, which reported a whopping 44% increase in net income, driven primarily by higher trading-related revenue, advisory and underwriting fees. This can be attributed to increased business, investment and M&A activity attributed to an improving economic outlook.

Emphasizing that as the economy improves, Toronto Dominion's wholesale banking division is well placed to continue growing revenues and net income. But this division only contributes 10% of the bank's total revenue with the majority being provided by its retail and corporate banking operations.

The bottom line for share holders was first quarter 2013 net earnings of \$1.06 per share, a 6% increase over the same period in 2012. As a result the bank's board approved yet another dividend hike, increasing the quarterly dividend by 9% to \$0.47 per share, payable in April 2014.

Giving Toronto Dominion a juicy dividend yield of 3.8%, but with a modest payout ratio of around 47%, indicating it is sustainable. But this yield is still lower than **CIBC's** ([TSX:CM](#))([NYSE:CM](#)) 4.3%, Bank of Nova Scotia's ([TSX:BNS](#))([NYSE:BNS](#)) 4.1%, and **Royal Bank of Canada's** ([TSX:RY](#))([NYSE:RY](#)) 4%.

### What does the future hold?

There are still naysayers who claim the market for financial services and in particular credit has reached saturation point in Canada. When coupled with claims the Canadian housing market is overheated, it is clear there are potential headwinds threatening the profitability of Canada's banks.

But there are signs of stronger economic growth in Canada, with the IMF expecting the economy to

expand by 2.2% in 2014 and 2.4% in 2015. The claims of an overheated Canadian housing market and its imminent collapse also appear half-baked. Fitch Ratings expects a modest decline in housing prices in 2014, whereas the Canadian Mortgage and Housing Market Corporation expects modest growth for that period.

All of that indicates there are still significant growth opportunities for Canada's top 5 banks, boding well for increased earnings growth throughout 2014.

Toronto Dominion's strategy of expanding into wealth management and consumer lending (credit cards) in the U.S. is already paying dividends. I expect this to continue as the U.S. economy picks up. This is an important growth engine for the bank if it can continue correctly executing this strategy in what is known as a fickle and competitive banking market.

### **How does Toronto Dominion shape up compared to its peers?**

Toronto Dominion, like its top 5 peers, will continue to perform strongly, but the key question is whether it is the best pick of the bunch for investors. To determine this it is necessary to compare a range of performance and valuation measures.

[TD Performance Ratios 280214](#)

default watermark

Image not found or type unknown

Toronto Dominion is not performing as strongly as its peers, with the second lowest ROE and third highest efficiency ratio. It also appears expensive in comparison to the other top 5 banks, with high price-to-book and price-to-earnings ratios and the lowest dividend yield of the top 5.

### **Foolish bottom line**

Clearly Toronto Dominion is performing strongly and I would expect it to continue doing so throughout 2014, particularly if it can successfully execute its U.S. expansion strategy. But there are superior opportunities for investors with the Bank of Nova Scotia and CIBC standing out as my preferred picks.

### **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

## **Category**

1. Investing

## **Date**

2025/09/14

## **Date Created**

2014/02/28

## **Author**

matttdsmith

default watermark

default watermark