3 Major Takeaways From TD Bank's Latest Results

Description

On Thursday morning, **Toronto Dominion Bank** (TSX: TD)(NYSE: TD) reported results for the second quarter of 2014. And much like **RBC**, which also reported earnings Thursday morning, results surpassed expectations. Core earnings came in at $1.04 per share ($1.09 after stripping out one-time items), up 17% year-over-year. As a result, the shares jumped 2.3%, reaching an all-time high at one point.

Below are the three biggest takeaways from the quarter.

1. Canadian banking just keeps on rolling

The Canadian Retail segment generated net income of $1.3 billion for the quarter, 12% higher than the second quarter of 2013. Much of this was of course due to continued strength in the Canadian housing market, which helped boost loan growth and minimize credit losses.

Also of note is TD's early success with the Aeroplan credit card portfolio. As reported by Aeroplan operator **Aimia Inc** (TSX: AIM) last week, TD has signed up 275,000 new Aeroplan credit cardholders, vastly exceeding expectations. To put that number into perspective, 550,000 Aeroplan cardholders were transferred over to TD last year – so the total number of cardholders has been increased by about 50%.

2. The United States is showing signs of life

The U.S. Retail segment has always been more of a challenge for TD. In recent years a slow recovery and increasing regulatory costs have both put pressure on margins. But in this quarter, adjusted net income grew 13%. Part of this was due to a couple of acquisitions, including **Target's** credit card portfolio – still, the results are certainly a step in the right direction.

The next big catalyst for U.S. Retail will likely be rising interest rates. Currently the bank has plenty of deposits, and is anxiously waiting for an opportunity to reinvest that money at higher yields.

3. Some volatile segments

There are a couple of areas where earnings can fluctuate pretty wildly from one quarter to the other. One is capital markets, where profit fell slightly to $207 million in the second quarter. The other is insurance, which had a tough 2013 due to some extreme events, most notably flooding in Alberta. But this quarter, insurance posted some rice results, with claims and expenses falling 4% year over year.

Both of these business lines can create some big noise, but really it is just that. Investors should only look at long-term trends, and ignore quarterly fluctuations.

What does this mean for investors?
Again much like RBC, TD continues to perform well, although one has to wonder how long this can last. If Canada's real estate market suffers a downturn like so many people are predicting, it will be

interesting to see how it affects banks like TD. But this is something that has not happened yet.

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Date
2025/08/26
Date Created
2014/05/22
Author
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