

As TD Plans its Next Big Move, Should You Be Investing?

Description

On Friday morning, *The Wall Street Journal* reported that **TD Bank** ([TSX: TD](#))([NYSE: TD](#)) is considering a major expansion in New York City. According to the paper's sources, the bank would become the principal tenant in a new tower named One Vanderbilt, which will be taller than the nearby Chrysler building.

So is this a good idea? How should investors react? And is this an opportunity to buy the stock? First, it's worth taking a look at TD's business in the United States to date.

Tough to make money

Ever since entering the United States 10 years ago, TD has struggled to earn sufficient returns. Over the last three fiscal years, return on equity in the U.S. has been only 7.3% on average. In Canada, that number is 42.2%. Just last year, net income per employee was about \$61,000 in the United States. In Canada it was \$133,000.

While the slow recovery and increasing regulatory costs play a factor in the disparity, the real difference between the two countries is competition — the United States has thousands of banks, all competing for the same customers, driving down profit margins. In Canada, competition is much less fierce, and profits come more easily.

Go big or go home

Banking is a business that has very high fixed costs, like technology and regulatory costs. So if a bank like TD is serious about competing in the United States, it must commit to growing its franchise, which has been its strategy for years.

Contrast this with **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)). In 2011, [the bank decided to exit the United States](#) by selling its remaining branches to **PNC Financial Services Group**. The phrase “go big or go home” certainly applies to U.S. banking, and RBC chose the latter.

So how should investors react?

This news should not be a game-changer for investors, since it is already well-known that TD wants to expand in the United States. But there is reason to be a little bit worried. TD is doubling down on a bet that hasn't worked out perfectly so far, and we all know that real estate in Manhattan is incredibly pricey.

Is now the time to buy TD?

Right now, if you're looking to make a bet on U.S. banking, there are likely better opportunities. For example, **Bank of America** ([NYSE: BAC](#)) is trading at only 0.7 times book value, and of course is more of a pure play on U.S. banking.

As for TD, it's worth waiting to see how this plays out. After all, the bank hasn't even made any announcements yet. But one way or another, TD will be growing its presence significantly south of the border. Time will tell if the strategy pays off.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BAC (Bank of America)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

Category

1. Investing

Date

2025/09/28

Date Created

2014/05/23

Author

bensinclair

default watermark

default watermark