The Pros and Cons of Investing in Toronto-Dominion Bank

Description

Toronto-Dominion Bank (TSX: TD)(NYSE: TD) is Canada's second-largest financial institution and one of the country's most admired companies. It consistently ranks ahead of its peers for customer satisfaction, and is one of the few Canadian companies with a recognizable brand in the United States. The company's shares have performed well in recent years, up over 40% in the last 24 months.

However, do its shares make for a good investment today? Below we take a look at two arguments for the bank, and two against.

Why buy?

1. Track record

Very few banks in Canada, or in any country for that matter, have performed as well as Toronto-Dominion over the last decade. In Canada, the company has built up a strong franchise with very happy customers. In the United States, the company managed to avoid the subprime market, earning then-CEO Ed Clark wide praise. In fact, Mr. Clark was named CEO of the year by *Canadian Business* in 2013.

The bank's stock has reflected this performance. Over the past 10 years, its shares have returned over 12% per year, well above the average for Canada's big five banks. If it is able to keep up its good work, shareholders could benefit for the next 10 years, too.

2. Growth in the United States

Not many Canadians realize that TD Bank actually has more branches in the United States than it does in Canada. Its American presence is growing more quickly, too.

Nowadays its U.S. banking operations are not especially profitable. Low interest rates, as well as a lack of demand for loans, mean that it has a tough time earning a decent return on its assets. However, given the Federal Reserve's actions, interest rates should rise eventually. As the American economy recovers, more businesses will look for loans. Thus, there's a lot of upside for TD Bank south of the border.

Why to avoid

1. Price

As mentioned, its shares have performed very well recently. As a result, the shares are much more expensive than they used to be. In fact, at over 15 times earnings, its shares are trading at a higher multiple than any of the other big five banks.

2. Return in the United States

As mentioned, there is a strong case that the bank's operations in the United States will become more profitable. However, it's important to remember that U.S. banking is an extremely competitive industry. As a result, profits are very hard to come by.

Just looking at its 2013 annual report tells the story. In Canada, return on equity was above 40%; in the United States, it was less than 10%. It's true that the U.S. banking environment is quite depressed right now, and could improve, but until then, all you can do is wait and see.

CATEGORY

1. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
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bensinclair