1 Big Reason to Buy Shares of Toronto-Dominion Bank

Description

During his tenure as CEO of **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD), Ed Clark did many things very well. As a result, TD became much more profitable in Canada, dodged the subprime market in the United States, and saw its market value go up by five times. But there's one aspect of Mr. Clark's tenure that still generates controversy: TD's expansion into the United States.

TD's entry into the USA has not been half-hearted. It started in 2005 with its purchase of Maine-based Banknorth Inc., and nine years later, TD has 1,300 branches in the United States (more than it does in Canada). All told, roughly $17 billion has been spent on acquisitions to build that network.

Unfortunately, TD's investment has not borne much fruit so far. In the U.S., banking is much more competitive, and profitability is harder to come by. And TD's operations are no exception. Because its U.S. branches aren't able to generate the same kind of volume, expenses total more than 60% of revenue, compared to 42% in Canada. As a result, TD's return on equity in the United States is stuck below 10%. Many long-term investors simply wish the company had spent the $17 billion on buying back shares.

Some reasons for hope

That being said, there are reasons for optimism. For one, new CEO Bharat Masrani has said that he is less inclined to make acquisitions in the United States; he would rather expand organically.

It's not that Mr. Masrani opposed these acquisitions in the first place. But he claims that the U.S. banking operations have reached scale, and now need to grow by selling more products to existing clients. This should certainly please TD shareholders, since this is what the bank does best, and it means that future growth won't be expensive.

Secondly, the banking environment should improve in the United States, and that of course will help TD. An improving economy should increase the demand for loans, and rising interest rates should help TD increase net interest margins.

A free option

At first glance, TD may not seem like a very attractive investment – at 14 times earnings, it is more expensive than any other big five bank. But this is still an excellent option. For one, its focus on retail banking and its emphasis on risk management make it arguably the lowest-risk bank stock among the big five.

And at this point, its operations in the United States should improve steadily in the years ahead. Mr. Masrani's comments only reinforce that notion. So TD remains a great core holding in practically any portfolio.

CATEGORY

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bensinclair