3 Reasons Why You Should Buy Toronto-Dominion Bank as Oil Prices Fall

Description

With all the news about oil`s slide, many investors in Canada may prefer to invest in the bank stocks. And who can blame them.

But Canada's economy is very dependent on the oil sector, so that begs the question: are the banks at risk from the oil price slide? And what we find is that **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) is best positioned. Below are three reasons why.

1. Limited exposure in terms of loans

The first question one must ask is quite simple: how much of the banks' loans are in the energy sector?

Fortunately, the exposures are fairly limited. Among the big 5 banks, **Royal Bank of Canada** (TSX: RY)(NYSE: RY) leads the pack, with 9% of commercial loans directed towards the energy sector (as of the end of last year). TD had the lowest share, with only 2%. So there's practically no risk of material loan losses from energy at TD.

2. What about Capital Markets?

RBC will also feel some pain in its Capital Markets business. After all, it says that it specializes in "energy, mining, and infrastructure." So there should be less work available for the energy investment bankers, and lower revenue as a result. The unit will also be hurt by lower stock prices, which could easily lead to trading losses.

Granted, there are some reasons why RBC will not be that badly affected. Most of its Capital Markets revenue comes outside of Canada. So the unit is not exactly tied to the oil industry. Secondly, a shakeup in the energy market may force some weaker players to sell assets. Those companies will need bankers, and RBC will compete for that business.

That said, TD is again far more immune to the oil price slump. In fact, its Capital Markets (which the bank refers to as “Wholesale”) business accounts for less than 10% of net income, compared to about 25% for RBC. So once again, TD’s exposure is relatively limited.

3. An advantage for TD’s customers

In fact, the oil price slump should provide a boost to TD’s fortunes. Allow me to explain.

Within Canada, TD is heavily concentrated in Ontario, a province that stands to benefit greatly from reduced oil prices. For one, the province’s residents can save some money on gas. Secondly, the low oil price reduces the value of the Canadian dollar, making life easier for the province’s exporters. This means that businesses in the province, as well as their employees, should have no problem paying back their TD loans.

Secondly, TD is heavily concentrated in the United States, and the low oil price should benefit its customers. Remember, TD is focused on the East Coast, while oil is mainly produced in states like Alaska, North Dakota, and Texas. So once again, its main customers are enjoying lower gas prices, and should have no trouble paying back their loans. Again, good news for TD investors.

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