



The Number 1 Most Overlooked Reason to Buy Toronto-Dominion Bank

Description

These aren't the easiest of times for Canadian banks as they seem to be facing headwinds from all directions: consumer debt burdens are at record highs; oil prices have fallen over 50%; the Canadian real estate market is estimated to be 25-50% overvalued; Canadian GDP growth was flat in the first quarter and projected to be a low 1.9% for 2015; and the overnight interest rate is at a low 0.75%.

This is why Canadian banks are pursuing different strategies to realize growth in these difficult conditions, and for **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), this has meant expanding its retail footprint into the United States. This has been a successful strategy not only for diversification purposes, but also because economic conditions in the United States are considerably more favourable.

The U.S. GDP growth is expected to average 2.7% in 2016, and the country will benefit from weak oil prices since it is a net importer. Although TD's well-known U.S.-retail-branch network will position it to benefit from these conditions, TD Bank's U.S.-based TD Ameritrade retail brokerage is one of the most overlooked parts of the business, as it has tremendous past and future growth. Let's take a look at TD's overall U.S. strategy and how TD Ameritrade will provide significant growth.

The current state of TD's American operations

Currently, TD's American operations provide about 29% of total net income. It currently has about 1,306 branches in the U.S., compared with 1,164 in Canada, and plans to open about 25 more this year. These branches are positioned largely in the North East area of the U.S., and TD currently operates in seven of the 10 wealthiest states, which was an important strategic move.

Although TD initially began expanding into the U.S. through a series of acquisitions, its focus is now on organic growth since the company now has the scale it needs in the U.S. The company will continue to add new branches in the North East U.S. area, and focus on selling more banking products to U.S. customers.

Although this organic growth strategy will continue to add value, TD's U.S. segment is also poised to see accelerated growth from macroeconomic conditions. The U.S. is widely anticipated to increase

interest rates this year, and this should be a boon to TD's earnings, since the company has largely been operating in a near-zero interest rate environment since it began its U.S. expansion during the recession.

In addition, TD's U.S. segment allows the bank to benefit from the current weak Canadian dollar, since net income sees an immediate boost as U.S. dollars are translated back into Canadian dollars, as does the firm's book value for its American assets.

TD Ameritrade will continue to drive U.S. growth

TD Ameritrade is TD Bank's U.S.-based retail stock brokerage, and has seen enormous growth thus far, which is only expected to continue. TD Bank currently owns 41% of TD Ameritrade and this ownership contributed \$90 million to TD's overall net income, representing 14% of the U.S. segments earnings.

TD Ameritrade is a leader in both trading activity, fees, and asset gathering. Ameritrade clients currently make 425,000 trades a day, up from 372,000 trades per day in 2010, and the percentage of more expensive derivative trades has increased from 28% of trades in 2010 to 41% of trades in 2014.

The company has been steadily growing its asset-based fees at a 25% CAGR since 2010, and analysts are predicting its operating income will grow 120% over the next five years.

TD Bank also has a mutually beneficial relationship with TD Ameritrade. TD Ameritrade, through its insured deposit accounts, provides deposits to TD Bank that it can then use for lending activity, and in exchange, receives a fee from TD Bank based on the spread that TD earns. This allows TD Ameritrade to receive interest revenue as its deposits grow without needing to hold more capital as it would if it were a bank.

This will give TD Ameritrade more ability to boost dividends or buy back shares as its earnings grow.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Investing

Date

2025/08/26

Date Created

2015/04/30

Author

amancini

default watermark