Dispelling the 3 Biggest Myths About Toronto-Dominion Bank

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest company, and one of its most widely held stocks. Yet there are still some things the investment community doesn't seem to understand about TD.

Myth #1: TD's American adventure has been a success

Back in 2004 TD began expanding into the United States with its agreement to purchase Banknorth. From there the bank increased its presence mainly through acquisitions. Its most significant takeover occurred in 2007 when the bank acquired Commerce Bancorp for $8.5 billion.

TD is widely praised for its expansion—there's even a book written about it: *Banking on America: How TD Bank Rose to the Top and Took on the U.S.A.*. In an article about the book, *The Toronto Star* said that "Others with U.S. ambitions can read the book as a how-to manual."

But TD's expansion into the United States has cost the bank roughly $25 billion. And last year the U.S. Retail division earned only $2.1 billion. In previous years the division earned much less. So, the returns on TD's expansion haven't been great. In fact, if TD had spent that $25 billion by repurchasing shares, its earnings per share would undoubtedly be higher today.

To be clear, TD still has a fantastic track record. But let's not give the bank too much credit for its entry into the United States.

Myth #2: TD's U.S. business is about to take off

In fairness to TD, the banking environment in the United States hasn't been great recently: low interest rates have kept margins low; we witnessed the worst financial crisis in 70 years; regulations have increased; and the housing recovery has been slow and painful.

Yet there's a wide consensus that U.S. banking will become more profitable. Interest rates are set to rise and the economy continues to recover. Meanwhile, the banking industry is consolidating, meaning that competitive pressures may ease.

Not so fast. There are still nearly 7,000 banks in the United States, and competition is very intense. Even worse, technology companies are offering more and more financial services. So, even if interest rates rise and demand for loans increases, these benefits could easily get competed away.

Myth #3: The fall in oil prices is a big risk to TD

When oil prices really started to collapse late last year, TD's stock price took a hit, too. From November 27th to January 15th, TD's U.S.-listed shares fell by 18%.

Clearly TD's shareholders are scared by low oil prices. But they shouldn't be. TD has a relatively light presence in Alberta. Its customers in Ontario and the eastern United States benefit from low gasoline prices. TD's retail focus minimizes its exposure to falling stock prices. And its strong risk-management practices ensure that loan losses will stay low.

To conclude, many investors admire TD for its U.S. expansion, but are worried about falling oil prices. Yet this view simply ignores the whole story.

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