

Should You Buy Toronto-Dominion Bank Following its Q2 Earnings Beat?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)), the second-largest bank in Canada in terms of total assets, announced second-quarter earnings results before the market opened on May 28, and its stock has responded by falling over 3% in the trading sessions since. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

A growing asset base leads to better-than-expected results

Here's a summary of TD Bank's second-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.14	\$1.11	\$1.09
Adjusted Revenue	\$7.74 billion	\$7.48 billion	\$7.44 billion

Source: *Financial Times*

TD Bank's adjusted earnings per share increased 4.6% and its adjusted revenue increased 4.1% compared with the second quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its adjusted net income increasing 4.6% to \$2.17 billion, driven by growth in all three of its segments, including 8.3% growth to \$1.44 billion in its Canadian Retail segment, 8.4% growth to \$594 million in its U.S. Retail segment, and 18.8% growth to \$246 million in its Wholesale Banking segment.

Its strong revenue growth can be attributed to its net interest income increasing 4.3% to \$4.58 billion, which was also driven by growth in all three of its segments, including 2% growth to \$2.37 billion in its Canadian Retail segment, 14.7% growth to \$1.73 billion in its U.S. Retail segment, and 9.6% growth to \$584 million in its Wholesale Banking segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Non-interest income increased 3.9% to \$3.16 billion
2. Total assets increased 13.5% to \$1.03 trillion
3. Total deposits increased 17.4% to \$652.09 billion
4. Total loans managed, net of loans securitized, increased 11.1% to \$504.41 billion
5. Adjusted efficiency ratio expanded 200 basis points to 54.8%
6. Book value per share increased 13.9% to \$30.90

TD Bank also announced that it will be maintaining its quarterly dividend of \$0.51 per share, and the

next payment will come on July 31 to shareholders of record at the close of business on July 9.

Should you be a buyer of TD Bank today?

It was a very strong quarter for Toronto-Dominion Bank, so I do not think the post-earnings drop in its stock is warranted. With this being said, I think it represents a very attractive long-term buying opportunity, especially because the stock trades at very low valuations and because it has high dividend yield.

First, TD Bank's stock trades at just 12 times fiscal 2015's estimated earnings per share of \$4.51 and only 11.2 times fiscal 2016's estimated earnings per share of \$4.83, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.6 and the industry average multiple of 14.2. It also trades at a mere 1.75 times its book value per share of \$30.90, which is very inexpensive compared with its market-to-book value of 1.95 at the conclusion of fiscal 2014.

Second, TD Bank pays an annual dividend of \$2.04 per share, giving its stock a 3.75% yield at current levels. The company has also increased its dividend nine times in the last five years, making it one of the top dividend-growth plays in the market, and its consistent free cash flow generation could allow for another increase in the near future.

With all of the information provided above in mind, I think Toronto-Dominion Bank represents one of the best long-term investment opportunities in the financial sector today. Foolish investors should strongly consider establishing positions.

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