3 Reasons to Scoop up Toronto-Dominion Bank for Under $50 Per Share

Description

There was blood on the streets as markets opened on Monday, with the Dow Jones Industrial Average down as much as 1,000 points and the TSX down 600. The sell-off is mainly due to fears about the Chinese economy.

But the panic seems way overdone, and as a result, we're seeing some real bargains pop up. One of them is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which has fallen below $50 per share.

We look at three reasons to buy TD below.

1. An emphasis on risk management

Back in 2002 TD got burned badly by the tech bubble, resulting in nearly $3 billion in credit losses. From that point forward, the bank pledged to improve its risk-management practices.

It's worked wonders. TD has done an excellent job controlling risks over the past 10+ years, and the best example of this came during the financial crisis, when the bank emerged relatively unscathed. Of course, this is especially relevant now, with Canada likely in recession and consumer debt near record levels.

So, if you're afraid of TD's loan losses spiking, you shouldn't be. The bank has been there before, and won't suffer a repeat experience for a long time.

2. Low oil prices actually help

As we all know by now, low oil prices are wreaking havoc on the Canadian economy, and this has caused a sell-off in Canadian bank shares. TD alone is down by more than 12% in 2015.

But there are a couple of reasons why low oil prices are a plus for TD. First of all, the bank had only $3.7 billion of loans outstanding to the energy sector as of October 31st. That's just 0.7% of total loans.

Secondly, TD's customers are concentrated in regions that like low oil prices. Ontario (where TD is heavily concentrated) is enjoying the low Canadian dollar and should benefit further as gasoline prices decline. Down in the United States, TD's customers on the East Coast are not involved in energy production, and instead are anxiously awaiting low gas prices.

So, as oil prices continue to drop, TD shareholders simply shouldn't worry.

3. A $50 share price is far too cheap

By now it should be clear that TD will be just fine in this economic climate. But judging by the stock price, it's clear that investors aren't convinced.

Consequently, TD’s shares are now very cheap. The bank has recorded over $4.39 in adjusted earnings per share over the past 12 months, so with a stock price of $50, the shares would trade at just 11.4 times adjusted earnings. That’s a ridiculously cheap price for a company with such a strong track record.

Because of this low stock price, TD’s dividend yield has reached 4.2%. Keep in mind that this dividend has been raised 60 times since 1970 without having been cut. That should sound like a very good risk-reward ratio.

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