Why Is Toronto-Dominion Bank Nearly 15% Cheaper Than it Was 1 Year Ago?

Description

At this time last year, everything was going well at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). The company had just reported "record financial performance" with quarterly net income of over $2.1 billion, beating analyst estimates. Both the retail and wholesale businesses were humming along nicely. Capital ratios were solid.

Meanwhile, the Canadian economy was still going strong. Oil prices had fallen slightly since June, but the industry was still doing well. House prices and consumer debt were still a concern, but hadn't become a real problem. Everything seemed fine with TD.

This was all reflected in the company's stock price, which had increased by about 40% over the previous two years. At over $57 per share, TD was trading at over 14 times earnings, and had a dividend yield of less than 3.3%. Clearly investors were very optimistic about the company's prospects.

But that was then, and this is now.

A declining stock price

As we all know, TD's popularity among investors has declined over the past year. This is understandable. Low oil prices are wreaking havoc on the Canadian economy. House prices are long overdue for a correction. Consumer debt remains near record levels. Reduced interest rates are cutting into the bank's margins.

Consequently, TD's stock has declined by just over 10% in the past 12 months. But is such a share price decline warranted?

Increasing earnings

TD may be facing a lot of headwinds, but the bank has sailed right through them. In the most recent quarter, net income increased yet again, this time to nearly $2.3 billion. Results were strong in both divisions. And the CET1 capital ratio even improved.

These results are making TD's share price decline look silly. To put this in better perspective, the bank now trades at just 12.3 times earnings, nearly 15% cheaper than one year ago. TD's dividend has also increased in the last 12 months, and now yields 4.0%.

Why is there such a disconnect?

Investors are understandably frightened about the Canadian banking environment right now, and have been selling bank stocks. In fact, four out of the other five big banks in Canada have seen their share prices fall more than TD's.

But here's what investors seem to be missing: TD is relatively immune from the problems facing the Canadian economy. The bank has very little exposure to the energy sector, and is concentrated in regions that are benefiting from low oil prices, such as Ontario and the eastern United States. The bank's retail focus is also an advantage, because it doesn't have to worry so much about declining stock prices or declining deal flow.

At this point, TD is a much better buy than it was a year ago. If you're looking for a good long-term staple for your portfolio, this may well be it.

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