Toronto-Dominion Bank’s Adjusted Q4 Profit Jumps 16.9%: Is it Time to Buy?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), the largest bank in Canada in terms of total assets, announced better-than-expected fourth-quarter earnings results before the market opened on December 3, but its stock has responded by moving lower. Let’s take a closer look at the results to determine if this weakness represents a long-term buying opportunity or a sign of things to come.

Breaking down the fourth-quarter beat

Here’s a summary of Toronto-Dominion’s fourth-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Adjusted Earnings Per Share	$1.14	$1.13	$0.98
Revenue	$8.05 billion	$7.57 billion	$7.45 billion

Source: Financial Times

Toronto-Dominion’s adjusted earnings per share increased 16.3% and its revenue increased 8% compared with the fourth quarter of fiscal 2014. Its double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 16.9% to $2.18 billion, driven by growth in all three of its major segments, including 10.2% growth to $1.5 billion in its Canadian Retail segment, 26.9% growth to $646 million in its U.S. Retail segment, and 22.5% growth to $196 million in its Wholesale Banking segment.

Its very strong revenue growth can be attributed to its net interest income increasing 9.6% to $4.89 billion, led by 25.7% growth to $1.91 billion in its U.S. Retail segment, and its non-interest income increasing 5.5% to $3.16 billion, led by 73.1% growth to $116 million in its Wholesale Banking segment.

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

1. Total assets increased 15% to $1.1 trillion
2. Total deposits increased 15.8% to $695.58 billion
3. Total loans, net of allowance for loan losses, increased 13.7% to $544.34 billion
4. Total assets under management increased 17.7% to $345.8 billion
5. Total assets under administration increased 6.6% to $325.9 billion
6. Total equity increased 19.2% to $67.03 billion
7. Book value per share increased 18.8% to $33.81
8. Adjusted efficiency ratio contracted 90 basis points to 55.3%

Toronto-Dominion also announced that it will be maintaining its quarterly dividend of $0.51 per share, and the next payment will come on or after January 29, 2016 to shareholders of record at the close of business on January 8, 2016.

Should you buy or avoid Toronto-Dominion’s stock today?

It was a phenomenal quarter overall for Toronto-Dominion, so I do not think the drop in its stock is warranted. With this being said, I think the drop represents a great opportunity for long-term investors, because the stock now trades at even more attractive forward valuations and because it has a high dividend and is a dividend-growth play.

First, Toronto-Dominion’s stock now trades at just 11.8 times fiscal 2015’s adjusted earnings per share of $4.61 and only 11.3 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 13.1 and the industry average multiple of 13. It also trades at a mere 1.61 times its book value per share of $33.81, which is very inexpensive compared with its market-to-book value of 1.95 at the conclusion of fiscal 2014 and its five-year average market-to-book value of 1.79.

With the multiples above and its estimated 6.9% long-term earnings growth rate in mind, I think the company’s stock could consistently trade at about 13 times earnings, which would place its shares upwards of $62 by the conclusion of fiscal 2016, representing upside of more than 13% from today’s levels.

Second, Toronto-Dominion pays an annual dividend of $2.04 per share, which gives its stock a 3.7% yield. It is also very important to note that the company has increased its annual dividend payment for five consecutive years, and it has a target dividend payout range of 40-50% of adjusted net earnings, so this streak will likely continue in 2016.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in Toronto-Dominion Bank’s stock to begin scaling in to long-term positions.

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Date
2025/09/30
Date Created
2015/12/03
Author
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