Toronto-Dominion Bank: The 1 Bank Stock You Should Hold in 2016

Description

Over the past year, Canadian investors have grown more pessimistic about the Big Five bank stocks. It's no secret why–the Canadian economy is struggling, consumers are highly indebted, and low interest rates are threatening the banks' margins.

Yet throughout the year, the banks continued to grow profits. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) offers a perfect example, growing adjusted earnings per share by 8% in FY2015.

And as we look into 2016, TD is probably your best bet among the Big Five banks. We take a closer look why below.

Why investors remain skeptical

If you just look at TD's financial statements, you would think there is nothing wrong with the Canadian economy. For instance, loans outstanding grew by well over 10%, reaching nearly $550 billion. Along the way, the bank suffered only $1.7 billion of credit losses.

This makes perfect sense when looking at the Canadian economy. Sure, oil prices are down, but many smaller producers are hanging on. Jobs have been cut, but consumers haven't started defaulting on loans. Interest rates are down, but many (slightly) high-rate loans remain on the banks' books.

Thus there's a reasonable fear that the banks are in for a rough year in 2016. That's why TD's shares have declined by 2% this year.

TD's advantages

TD is somewhat insulated from these issues–certainly more so than the other banks. There are a few reasons why.

Let’s start with the obvious: TD has a sizeable presence in the United States. In fact, the bank hasmore branches in the U.S. than it does in Canada. The U.S. is in much better shape than Canada, andrising interest rates will help TD’s margins south of the border.

Secondly, TD has less exposure to Alberta and less exposure to the energy sector than any of the other Big Five banks. TD is much more concentrated in Ontario (as one would guess), a province that is benefiting greatly from the low Canadian dollar.

Finally, TD is much more focused on retail banking, rather than a shaky business like capital markets.

Not overly priced

TD’s stock price actually performed better than the other Big Five banks in 2015. And, as a result, its price-to-earnings ratio is the highest of the lot at 12.9.

But this is only a little bit more expensive than the other banks and a very reasonable price to pay. Remember, TD has the strongest track record, at least over the past 10 years, of any Big Five bank. It is very good at controlling risk, something that’s especially important in today’s environment. And it makes for a great core holding in most portfolios.

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