Toronto-Dominion Bank: What to Expect in 2016

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has long been a favourite for Canadian investors, but the bank is dealing with some unprecedented challenges heading in to 2016.

Some major headwinds

In an interview with *The Globe and Mail*, CEO Bharat Masrani summed up TD's situation very succinctly: "We've had a terrific macro environment over the past number of years, but you can see now that those fundamental tailwinds are subsiding."

We all know what he means by this. Commodity prices are down, which is putting a damper on the Canadian economy. Loan growth is slowing significantly, mainly because Canadians are already heavily indebted. And competition is on the rise thanks to new technology start-ups.

So far we haven't seen the major effects. In its most recent fiscal year, TD's adjusted earnings per share grew by nearly 8%. Credit losses continued to be minimal by historical standards, especially in the Canadian retail segment. Returns are still strong, and the bank remains very well capitalized.

Yet investors clearly see trouble ahead, and the bank's share price declined by 2% this year as a result.

TD's response

TD hasn't been standing still while these issues mount. Most notably, the bank has reduced its payroll by 1,600 (nearly 2% of its workforce) in an attempt to slim down and compete with FinTech companies. The moves have led to nearly $700 million in restructuring charges, but should result in $600 million in annual cost savings by 2017.

In addition, TD has done a major reshuffle at the executive ranks, and these changes indicate a greater focus on technology. For example, Teri Currie–who has overseen many of TD's recent technological efforts–will now be in charge of Canadian retail.

Other than that, TD will press ahead with its existing long-term strategy. That means expanding in the

United States (which may involve another credit card-portfolio acquisition) and a focus on customer service north of the border.

Is the bank a safe holding?

Without doubt, TD is more insulated from Canada's issues than its rivals are. The bank has relatively little exposure to energy companies, little presence in Alberta, and, of course, a big emphasis on the United States.

So even though TD is slightly more expensive than the other banks and is trading at about 13 times earnings, the trade-off is well worth it. This stock is likely your best option of the banks heading in to 2016.

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