Why Toronto-Dominion Bank Keeps Increasing its Earnings in This Environment

Description

As oil prices continue to languish, the Canadian banks have grown ever more unpopular. And it's easy to see why.

The Canadian economy is struggling mainly due to low oil prices. Interest rates have been lowered even further, which compresses net interest margins. And consumer debt remains at lofty levels.

Yet through it all, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) continues to grow earnings. For example, in the most recent quarter, TD's adjusted profit rose by 6% year over year. The bank also hiked its quarterly dividend to $0.55. So this raises an obvious question: how does TD continue to increase its profit in such an environment?

We look at the top three reasons below.

1. A focus on retail

Over 90% of TD's earnings comes from its retail business, which is far less risky than its wholesale business (most banks refer to wholesale as "Capital Markets"). This retail focus allows earnings to stay nice and smooth, even in challenging environments.

The most recent quarter provides a perfect example. Profit at TD's wholesale business declined by 16% year over year largely related to a "challenging" equity-trading environment. But this decline amounted to only $31 million, a fairly easy number to overcome, even though income from the retail businesses rose less than 5%.

2. A lack of exposure to energy

TD's total loans to oil and gas producers and services total $4.2 billion, which is less than 1% of total loans outstanding. And of that number, less than $3 billion is non-investment grade.

And when excluding real estate secured lending (a very low-risk form of lending), consumer loans in Canada's energy-producing provinces make up less than 2% of outstanding loans.

TD has far more exposure to areas that actually benefit from low oil prices. To be more specific, Ontario is benefiting tremendously from the low Canadian dollar as well as low gasoline prices. And down on the U.S. East Coast, consumers are enjoying an even steeper discount on gasoline, while the strong U.S. dollar gives a further boost to TD's earnings in the country.

3. A focus on risk management

Canada's economy is already showing signs of strain, but TD should be well protected. The bank has placed a very strong emphasis on risk management ever since 2002, when a bunch of loans went sour from the tech bubble burst. It's a philosophy that saved the bank a lot of money during the economic crisis of 2008-2009.

So if you're looking to avoid the worst from the energy fallout, TD is probably your safest bet among the Canadian banks.

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