



Is Now the Time to Buy Toronto-Dominion Bank?

Description

Bank-reporting season has just finished, and despite the economic headwinds facing Canada, all of the major banks have reported some impressive results. One of the standout performers was **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), which beat market expectations. This solid performance highlights why Canada's second-largest bank by assets should be a core holding in every investor's portfolio.

Now what?

For the third quarter 2016, Toronto-Dominion exceeded analyst forecasts, delivering a net profit of almost \$2.4 billion, or just over 5% higher than it was for the same quarter in 2015. This was an impressive achievement given the challenges being faced by Canada's economy, where the rout in commodities, particularly crude, continues to have a sharp impact on economic growth.

In fact, along with other headwinds, including growing household indebtedness and a lack of domestic growth opportunities, net income from Toronto-Dominion's Canadian banking business fell by 3% year over year.

However, this fall was offset by its U.S. banking business, which booked a strong performance for the quarter; net income grew by a healthy 14%, primarily because of a stronger U.S. economy. This impressive growth came from a solid 11% uptick in loan volumes, which triggered an impressive 15% jump in net interest income.

The remarkable quarterly performance can't solely be attributed to Toronto-Dominion's U.S. banking business. Its wholesale banking operations also performed notably well. Net income expanded by a remarkable 27% year over year on the back of stronger underwriting volumes as well as a significant increase in corporate lending fees and trading revenue.

I would expect this extraordinary rate of growth to continue, especially because of the bank's considerable exposure to the U.S. economic recovery that is now underway. This will help to mitigate any of the weakness being experienced in its Canadian business as a burgeoning U.S. housing sector and expanding consumption is set to boost demand for credit.

The good news doesn't stop there. The Fed recently signaled that a rate hike is on the table for some time between now and the end of 2016. Such an event would boost the profitability of Toronto-Dominion's U.S. banking business, causing its net interest margin, a key driver of operational profitability, to expand.

These aren't the only factors set to have a positive effect on the bank's bottom line.

With loans to the oil industry of \$7.3 billion amounting to a mere 1.2% of its balance sheet, it proportionally has the lowest exposure to the troubled energy sector of any of Canada's major banks. Along with gross impaired loans representing just over 0.6% of the value of gross loans, this indicates that its balance sheet is in good shape, thereby minimizing the risk of credit losses.

So what?

Toronto-Dominion's substantial exposure to the U.S. economy (it's now ranked the 10th largest bank south of the border) is paying considerable dividends for the bank. Not only is it helping to offset the weakness it is experiencing in its core market of Canada, but it is creating considerable growth opportunities.

These factors in conjunction with its solid balance sheet, minimal exposure to the struggling energy sector, and low volume of impaired loans should lead to more pleasant earnings surprises for investors. While shareholders wait for its share price to reflect its growing earnings, they will be rewarded by its regular, sustainable, and steadily growing dividend that now yields a tasty 3.7%.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Investing

Date

2025/10/01

Date Created

2016/08/31

Author

mattdsmith

default watermark