

Should Investors Own Toronto-Dominion Bank?

Description

There are plenty of reasons why investors buy bank stocks. They're predictable, they have their hands in multiple cookie jars, and, for the most part, they pay incredibly lucrative dividends that keep investors addicted for years. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is no exception. Among the Big Five banks, there are many who believe TD is the best bank to invest in.

Frankly, I believe these people are right. Owning TD Bank is a great way to generate lucrative income without a significant amount of risk.

If we look at its Q3 earnings, it's easy to see why. Revenue was up \$700 million to \$8.7 billion year over year, which beat analyst expectations of \$8.08 billion. Analysts had expected that adjusted net earnings would be \$1.21 per share, but instead TD delivered adjusted net earnings of \$1.27 a share, or \$2.42 billion. Its net interest income was up by 4.8% and its fee-based income was up by 14%.

Geographically, TD Bank is focused on Canada and the United States. Its U.S. retail division is doing a great job growing. Its net income for the third quarter was \$788 million, up \$114 million year over year. TD splits its U.S. income in two groups. The first is its retail bank operations, which had a 14% bump in net income. Then there's TD Ameritrade, a trading application, which had a 36% boost in net income year over year.

Its Canadian retail operations were not as strong with net income dropping to \$1.5 billion from \$1.6 billion, but the company blamed this on higher insurance claims due to the Fort McMurray wildfires. And thanks to higher originations in the debt and equity capital markets, TD boosted its net income in its wholesale banking division by 26%.

So it's clear that the bank is doing an efficient job generating incredible amounts of net income.

The only bad news is that it had loan-loss provisions of \$556 million—up from \$437 million a year prior. Banks set money aside in case a loan sours, so this is a necessary evil. But the bad news is only on the surface when you realize that in the second quarter it had set aside \$584 million for loan-loss provisions. This shrinking number is good news for the company.

Are there other risks? Sure. One is oil and gas, though this is small because only 1% of its loan book is tied to the energy sector. The bigger risk is the mortgage market. Although 53% of its loan portfolio is insured, if home prices were to drop seriously, TD Bank could be harmed quite significantly. Fortunately, there are no expectations of home prices cratering all that much.

All in all, TD Bank is in a really good position to continue growing. If it can continue reducing its loan-loss provisions and grow earnings even more, there's no reason that the company won't continue to reward investors through its generous dividend.

Currently, it pays \$0.55 per share, which is a 3.79% yield. At the beginning of 2016, it increased the dividend by 8%, so if earnings per share continue to rise, I expect this number will follow.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/23

Date Created

2016/09/28

Author

jaycodon

default watermark

default watermark