Why Toronto-Dominion Bank Is the Safest Canadian Bank

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has just closed out the Q1 earnings season for Canada's big banks, reporting an impressive earnings beat. The company's Q1 adjusted earnings per share (EPS) of $1.33 beat the street analyst consensus expected EPS of $1.27 — a positive earnings beat of approximately 5%.

What is interesting is how the markets have reacted to the news. The stock has basically been flat since the announcement. I'll take a deeper look at why this is the case and talk about why the positive earnings beat may have already been priced into TD's stock.

Relative performance remains strong

Compared with the other major Canadian banks, TD has fared very well. While **Royal Bank of Canada**, **Bank of Montreal**, **Canadian Imperial Bank of Commerce**, and **National Bank** all reporting earnings beats, **Bank of Nova Scotia** was the only major Canadian bank to report an earnings miss.

With the expectation that TD would beat earnings, as the majority of the other big banks have done so prior to TD's financials release, analysts have pointed to the likelihood of an earnings beat having already been priced into the company's stock.

That said, earnings in TD's Canadian and U.S. segments are up significantly; Canadian operations had a 4% boost, and U.S. operations had a 6.5% increase in profitability. The surge in profitability among TD's Canadian retail and wholesale segments remains a strong point for the company as compared with its peers, many of which did not achieve the same increases as TD over the same period of time.

The biggest gainer in TD's business portfolio is a 66% profitability increase in the bank's wholesale banking division. The bank increased its revenues at a faster pace than its expenses and saw large upswings in higher debt and equity origination activity, as well as a large increase in trading-related revenues.

TD remains conservative with forward-looking estimates

One of the reasons I like TD in relation to the other large Canadian banks is the way management views long-term risk. TD was one of only two of Canada's largest banks to increase its estimated provision for credit losses (PCL). The bank's PCL is essentially a contingency fund put in place to mitigate any significant portfolio losses over the course of the next year.

The increase in TD's PCL stands in stark contrast to other Canadian banks that have lowered their PCL, noting pervasive strength in the Canadian oil and commodities markets, meaning lowered risk of loan defaults to companies in operating in the resource industry.

While TD does list a rebound in resource prices as a positive for the overall PCL, the bank notes that loss provisions for auto loans and increased risks associated with the auto sector in the North American market mean that TD is taking a more cautious stance in beefing up its contingency fund. Increases in risks associated with foreign exchange was the other main reason for the increased PCL (from $548 million to $633 million).

Conclusion

TD is a conservative pick, relative to the other options available to the long-term investor looking for exposure to Canada's financial sector.

Stay Foolish, my friends.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/03
Date Created
2017/03/05
Author
chrismacdonald