Toronto-Dominion Bank: What Is Going on?

Description

The Big Five have a reputation for being stalwart investments. They control significant market share in Canada, and they have historically provided strong returns for their investors. But from time to time, there is a hiccup and the stocks react poorly. That happened to **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) in March, and the bank has been fighting to recover.

In March, CBC released a report that TD employees were pressured to meet high sales revenue goals and sometimes went so far as to break the law. Employees have admitted to increasing people's lines of credit without telling customers, which violates the Federal Bank Act. Naturally, investors reacted poorly; shares dropped over $4 in one day. Even now, shares are still down 7% from where they were before the report was released.

What likely had to be going through some investors' minds is that this would be a repeat of what happened to **Wells Fargo & Co** (NYSE:WFC). In 2016, Wells Fargo was fined by the Consumer Financial Protection Bureau for opening more than two million bank accounts and credit cards without customers knowing. This became a public relations fiasco for the bank so severe that CEO John Stumpf resigned.

Naturally, TD Bank did an investigation into the matter, and CEO Bharat Masrani said there was "…no widespread problem with people acting unethically in order to achieve sales goals." Whether that's true or not, I don't know (I've never been one to trust an internal investigation).

However, if we look at how Wells Fargo got hit, I don't see much more downside for TD Bank, which provides an opportunity for investors who are willing to go against the grain and pick up shares when others are afraid of the stock.

TD Bank announced its second-quarter results in May, and they were strong. Analysts had been expecting post earnings of $1.24 per share, up from $1.20 from Q2 2016. However, the company surpassed that, hitting $1.34 per share. TD Bank's net income was $2.5 billion, up from $2.1 billion in Q2 2016.

What is particularly exciting is that TD Bank's U.S. segment continues to experience tremendous growth, with 18% in the quarter. I anticipate this will continue to grow as the United States increases interest rates. If the spread is greater for the banks, they're able to generate greater amounts of money from loans. Further, the increased rates will allow them to increase their savings interest rates, which will provide more capital for loans.

On the dividend end, TD Bank provides a lucrative opportunity to earn $0.60 per share. The bank increased the dividend by 5% in the beginning of the year, continuing a tradition of slowly but surely increasing the yield.

Investors who are seeing these cheaper shares as an opportunity for income portfolios are right. Had you purchased shares when they were $70, your yield would be 3.4%. Now it's 3.68%. Although it is not significant, on a $50,000 investment, your income would be $1,818.18 per year if you had waited versus $1,714.29 had you bought when it was $70.

The reality is simple: TD Bank was hit with a public relations fiasco and, for the most part, it seems to be recovering. However, this fiasco presented an opportunity for investors to pick up shares at a discount. And even if you act today, you can get them for 7% less, allowing you boost your portfolio.

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