Toronto-Dominion Bank Posts a Strong Q3, but Future Quarters Might Suffer

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) released its third-quarter results on Thursday, which reported earnings per share of $1.51 for the quarter, significantly beating estimates of $1.37 set by analysts. Revenues of over $9.2 billion increased over 6% from the previous year, while net income saw an even bigger improvement for the quarter with profits totaling $2.7 billion — up 17% from 2016.

TD has had an excellent quarter, and I'll take a closer look at the company's earnings to see if it is a good buy.

Segment analysis: Canadian retail segment surges on fewer claims

The bank's Canadian retail segment saw revenue grow by over 3%, despite there being 14 fewer branches this year. Net income for Canadian retail totaled $1.7 billion, which is up over $200 million from a year ago for 14% growth in the bottom line. The big improvement in net income was primarily driven by lower cost drivers, specifically with insurance claims being down 25% and $173 million less this quarter than in 2016, which included claims for the Fort McMurray wildfires.

On the U.S. retail side, the company also achieved growth of 14% in its bottom line with profits totaling $901 million. In this segment, the growth was driven by revenue as sales of $2.6 billion were up over 12% from the prior year, despite seven fewer retail stores being open this quarter. The main drivers of the sales growth were higher volumes for loans and deposits, along with higher interest rates.

Wholesale banking, where the company generates income from corporate lending along with capital market services, saw net income decline nearly 3% year over year, despite revenues growing by 5%. The segment's drop in income was largely due to a rise in non-interest expenses, which were up 15% as a result of increased variable compensation and added costs related to the segment's new prime brokerage business, TD Prime Services.

The current valuation presents little upside left

The stock was already up about 3% on Thursday, and the with the new quarterly results, the company's earnings per share for the trailing 12 months will now be about $5.34, up from $5.07 from last quarter. The share price has normally traded at a multiple of under 13 times its earnings, and prior to this quarter's results the company's stock was trading under $65, or about 12.8 times its earnings. With the new earnings per share of $5.34, that same multiple would bring the price up to about $68.35 — less than two dollars from where it is trading now.

No dividend increase

Despite the strong results, TD did not opt to increase its dividend, and it doesn’t look like investorshave punished the bank for this either. However, a look at recent years shows that the bank normallyhikes its dividend just once a year, normally for its Q2 payment, which it has already done this year.

Bottom line

TD showed strong growth this quarter, and it was heavily lifted by its Canadian retail segment. However, bear in mind that the segment saw limited sales growth of about 3%, and the reason for the improvement in its net income was primarily the result of fewer insurance claims. The insurance claims that will likely come from the B.C. wildfires will have an impact on future periods and could very well have the opposite impact.

TD is still a good buy, but with subsequent quarters likely to suffer from higher insurance claims, and with the stock already up around 3%, there might not be enough upside left to justify picking this bank stock over another.

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