Toronto-Dominion Bank’s Q4 Misses Expectations but Continues to Show Strong Growth

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) released its fourth-quarter results today. The company’s sales continued to climb to $9.3 billion — a 6% increase from a year ago. The bank’s reported net income of $2.7 billion was also up 18% year over year. TD’s adjusted earnings per share came in at $1.36, and although that was an improvement over the $1.22 per-share earnings it reported a year ago, it fell short of analysts’ expectations of $1.39.

Despite the miss, the bank still had a strong quarter, although it was not as impressive as its Q3 results, which saw a 17% increase in profits. Let’s take a closer look into the results and assess if the company is a good buy today.

Consistent performance on both sides of the border

The Canadian retail segment of operations posted revenue of $5.4 billion for a year-over-year increase of 5%. Profits also improved by more than 10% which was fueled largely by the strong sales growth and slightly higher gross profits for the segment, while provisions for credit losses were down from a year ago.

On the U.S. retail side, sales of $2.5 billion in the quarter also saw a 5% improvement from a year ago, while profits were also up nearly 11%. The bank credits the improved performance with a stronger interest rate environment and higher volumes overall.

The company’s wholesale banking segment saw the poorest performance with sales of $694 million declining more than 6% from the $741 million in revenue that it recorded a year ago. However, despite the big drop in the top line, the segment saw net income drop by just 3%. TD says the results are due to less trading-related revenue and also less activity on the capital markets.

Outlook shows mixed expectations

TD said it expects its growth in Canada to “moderate somewhat” in the upcoming year compared to the strong performance it saw in 2017. As mortgage rules tighten, that will have an undeniable impact on the company’s sales growth, especially if housing activity slows down.

On the U.S. side of its operations, TD expects things to be a bit more stable, and in the wholesale segment, it looks to see an improvement there given how robust the markets have been.

Bank continues to show strong growth and stability

Despite the regulatory changes we'll see, the one constant is that TD will continue to find ways to grow. Net income for the full year was over $10.5 billion, which is an increase of over 60% in just four years. This impressive growth occurred even as interest rates were declining.

If TD can perform well under those conditions, then a rising interest rate environment could accelerate growth even further.

Why TD is a great buy

TD has normally been one of the top-performing bank stocks on the TSX. Year to date, it has seen returns of 10%, and in five years its share price has grown more than 75%. In addition to strong capital appreciation that investors can benefit from, the bank also pays a dividend of over 3%, which has grown over the years and will likely continue to rise.

With strong stability and great overall performance, there are plenty of reasons to like TD as a long-term investment.

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