Don’t Let the Earnings Miss Stop You From Buying Toronto-Dominion Bank

Description

Canada’s second-largest lender **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) just reported an earnings miss for its fiscal fourth quarter 2017. Weaker capital markets activity caused earnings from its wholesale banking business to fall for the quarter. Regardless of this recent earnings miss, investors should not be deterred from owning Toronto-Dominion.

Now what?

Toronto-Dominion remains a solid investment, despite fourth-quarter earnings coming in $0.03 per share short of analyst expectations. Toronto-Dominion’s overall earnings for the quarter were 11% higher year over year, while full-year earnings popped by a healthy 14%. Much of that improvement in earnings can be attributed to a strong performance from Toronto-Dominion’s U.S. retail banking operations, where net income for the quarter shot up by 16% and 13% for the year.

That solid growth from its U.S. operations should continue. Toronto-Dominion stands to benefit from the improving outlook for the U.S. economy with higher GDP growth and lower unemployment likely to spark a greater demand for credit.

For the period from July to September 2017, U.S. GDP expanded at a faster rate than predicted, beating the forecast 3.2% by 10 basis points to come in at 3.3%. If Trump can successfully implement his tax reforms and fiscal stimulus, the rate of growth will increase. Not only will that lead to greater lending revenue, but it will cause the U.S. dollar to rise giving Toronto-Dominion’s earnings a further lift.

While wholesale banking reported a disappointing fourth quarter, full-year earnings spiked by an impressive 13% compared to 2016. That division should continue to experience solid growth, because of the bank’s focus on investing in new services and product offerings, including opening a Tokyo office as well as expanding the U.S. dollar business.

An improving global economic outlook also bodes well for Toronto-Dominion’s wholesale banking business, because increased economic activity should lead to greater capital markets and trading activity.

A pleasing aspect of the latest results is that Toronto-Dominion's balance sheet remains strong, as evidenced by the bank being well capitalized with a common equity tier 1 capital ratio of 10.7% and a net impaired loans ratio of 0.38%. While gross impaired loans by the end of the fourth quarter had increased in value by $100 million quarter over quarter primarily because of the impact foreign exchange movements, they were still $424 million lower than a year earlier.

So what?

Toronto-Dominion remains one of the best means for Canadian investors to gain exposure to stronger U.S. economic growth with it being ranked among the top 10 U.S. banks and generating almost a third of its net income south of the border. While investors wait for Toronto-Dominion to appreciate, they will be rewarded by its steadily growing dividend. The bank has hiked its dividend for the last six years straight, which now sees it yielding a juicy 3.2%.

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Date
2025/09/30
Date Created
2017/12/05
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