Toronto-Dominion Bank Is a Screaming Buy After U.S. Tax Reform

Description

On December 20 the Republicans celebrated what will almost certainly be the first legislative victory for the Trump administration. The Republican-controlled House and Senate have passed a sweeping tax reform bill that will now go to the White House for final approval. The bill will see the corporate tax rate slashed from 35% to 21% and has been projected to raise corporate revenues by up to $6 trillion over the next decade.

Banks are expected to be one of the biggest winners from the tax reform legislation. According to **Wells Fargo & Company**, U.S. financials pay the highest effective tax rate at 27.5%. **Goldman Sachs Group, Inc.** released analysis that estimated U.S. banks would see earnings per share increase by an average of 13%. The repatriation stipulation could also be a big boost for firms with cash stored overseas. It sets a one-time tax of 8% on illiquid assets and 15.5% on liquid assets.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has declined 1.8% month over month as of close on December 20. TD Bank boasts the largest U.S. footprint of any other major Canadian bank. The passing of U.S. tax reform should motivate investors to take a hard look at TD Bank as we look ahead to the New Year, especially in the midst of this minor dip.

TD Bank released its fourth quarter results on November 30. For the full year, the bank reported net income of $10.5 billion compared to $8.9 billion in 2016. The bank saw its U.S. retail division post net income of $776 million in the fourth quarter, representing an 11% increase year over year. This is in comparison with the Canadian retail segment, which contributed $1.6 billion to overall net income in the fourth quarter.

The bank stated that growth in U.S. retail was largely due to a favourable interest rate environment combined with higher deposit and loan volumes, as well as an increase in fee income. Revenue was up 10% year over year to $2.03 billion in the quarter.

TD Bank was able to boast that it had become a top 10 bank in the U.S. in 2017. Greg Braca, the head of TD's U.S. retail unit, has said that the bank has plenty of room to expand market share. The enormous windfall from this tax reform bill should provide TD with the impetus to move forward with its ambitions. Braca has said that TD Bank is sub-scale in small business and corporate lending and underweight in wealth management.

TD Bank reached an all-time high of $75.09 before investor sentiment soured slightly after its fourth quarter results. Leadership believes that this was unwarranted and largely due to the record third quarter that overshadowed what was still a very solid Q4. However, it gives potential buyers a fantastic opportunity to load up on this stock before 2017 winds to a close.

The stock has increased 9.4% in 2017 and boasts a dividend yield of 3.3% at last offering. TD Bank stands to gain from this substantial corporate tax reform more than any other Canadian institution. Buying TD is definitely a no-brainer right now.

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