Billions of Dollars of Write-Offs Are a Good Thing for These 3 Companies

Description

Well, it seems Christmas 2017 was very good for investors with interests in most companies with U.S. operations, as the Trump Administration rolled out its tax plan just in time for the holidays. As investors and analysts unwrap this present and begin digging deeper, the outlook for what this tax cut will mean for Canadian companies with significant U.S. exposure is beginning to come to light.

For some of Canada's largest companies, such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), **Royal Bank of Canada** (TSX:RY)(NYSE:RY), and the other banks in Canada's "Big Six," January has proven to be a month of write-downs. RBC and TD both recently announced tax-deferred write-downs of $150 million and $400 million, respectively. These write-downs are a result of the lower U.S. corporate tax rate of 21%, which is set to come into effect this year, resulting in paper write-downs of the value of their assets, which defer taxes to a later date.

The market has generally treated most Canadian banks well in recent months, and while some investors may have been spooked by recent headlines of billions of dollars in write-downs for Canada's banks, the reality is that the one-off near-term dip in profitability is expected to be more than offset by long-term operating and net profit tax-related increases, proving another positive catalyst for investors in financials following the Trump election win.

Another sector that has greatly benefited since the Trump victory more than a year ago has been the insurance sector. Insurance company **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) recently announced a massive tax-deferred write-off of $1.9 billion, representing the size and scope of the company's U.S. exposure, even when compared to Canada's largest banks.

Bottom line

This upcoming quarter is certainly going to be an interesting one to dissect for large Canadian companies such as TD, Royal Bank, and Manulife, given the recent tax changes put in place. Analysts everywhere will be adjusting financial models and target prices accordingly, and I would anticipate near-term strength in both financials and insurance-related firms to be one of the top stories in the weeks and months to come.

In the long term, however, earnings for companies with significant operations in the U.S. market are expected to outperform given the bottom-line boost from tax-related changes. As such, I reiterate my belief that Canadian banks such as TD, which have done a good job at bolstering their presence in the U.S. market, will continue to outperform in 2018.

Stay Foolish, my friends.

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
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