Earnings Preview: What to Expect From Toronto-Dominion Bank on Thursday

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), Canada's second-largest bank by market capitalization, is scheduled to report first-quarter results this coming Thursday. It is the last of the Big Five banks to report, and if last week's bank results are any indication, Toronto-Dominion is poised to beat estimates.

Analysts expect the company to post earnings per share (EPS) of $1.46, a 9.8% increase over last year's first-quarter results. In the last week, three analysts have revised earnings estimates upwards, while nine have done so over the last four weeks. Toronto-Dominion's strong U.S. operations, which account for approximately 30% of revenues, will benefit from a declining Canadian dollar.

Interest rates have been rising both sides of the border, which is a positive for bank earnings. Rising interest rates are largely expected to improve net interest margins (NIM). NIM is the difference between net interest paid out by the bank and the net interest income it receives.

Investors should be aware that the company is expected to announce a one-time write-down of approximately $400 million. The reduction in deferred tax assets is in relation to impacts from changes to the U.S corporate tax rate. As a result, the net earnings reported will not be directly comparable to the first quarter of 2017. Investors should pay more attention to the adjusted EPS numbers. The charge is a one-time event, and moving forward the tax changes are expected to have a positive impact on earnings.

Look for commentary and details on the impact of the new rules surrounding uninsured mortgages. The rules, which came into effect January 1, are expected to result in slowing mortgage originations. Mortgage brokers have estimated that the big banks could divert as much of 20% of uninsured mortgages to alternative lenders. At the end of its 2017 fiscal year, uninsured loans accounted for 58% of its $265 billion mortgage portfolio.

Toronto-Dominion is also expected to announce a dividend increase. The company has raised earnings between 8% and 10% over the past 10 years — tops among the Big Five banks. Its dividend-growth rate should continue to outperform, as its dividend-payout ratio of 43% is the lowest among its peers. Toronto-Dominion currently yields 3.24%.

Given the performance of the banks to date, anything other than a beat would be disappointing. The company is better positioned than its peers to benefit from rising interest rates south of the border and a low Canadian dollar. Expect its dividend raise to be in the high single digits, which is in line with its historical averages. Aside from the potentially negative impacts of the new uninsured mortgage rules, Toronto-Dominion's first-quarter results should be well received by the market.

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mlitalien