Toronto-Dominion Bank: Impressive Earnings and Dividend Hike

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) announced first-quarter results, posting beats on both the top and bottom lines. The company announced adjusted earnings per share (EPS) of $1.56 and revenues of $9.36 billion. As mentioned in my earnings preview article, it was important to look at adjusted EPS, as reported EPS were expected to contain a one-time charge in relation to impacts from changes to the U.S corporate tax rate. The charge negatively impacted reported earnings by $0.24 per share.

The company posted double-digit earnings growth in both its Canadian and U.S. retail divisions. Canadian retail earnings grew an impressive 12%, while its U.S. retail earnings grew by 28% on an adjusted basis. These are impressive growth numbers and solidify the argument that the company's U.S. operations is what sets it apart from its Big Five peers. The bank will continue to benefit from a weak Canadian dollar. Wholesale banking was steady with 4% earnings growth.

The impact of expected increases in net interest margins (NIM) due to rising interest rates was mixed. NIM is the difference between net interest paid and its net interest income. As interest rates rise, NIM is expected to grow and be a boon to bank earnings.

In its Canadian operations, NIM only grew by two basis points (bps) quarter over quarter and six bps year over year (YOY). This is surprisingly low, considering Canadian interest rates grew by 75 bps YOY. The increased NIM margins were offset by the increased competition in the real estate secured lending portfolio. Could this be an interesting side effect of the new mortgage rules surrounding uninsured mortgages? As a direct result of the new rules, it's estimated that the bank could divert as much as 20% of its unsecured mortgage business. Given the negative impact on its uninsured lending portfolio, it is not surprising to see banks be more aggressive in the secured mortgage market. In Toronto-Dominion's U.S. operations, the NIM impact was more pronounced with an increase of 16 bps YOY.

The most impressive part of Toronto-Dominion's earnings announcement was its 11.7% dividend raise. The raise is double the average dividend-growth rate of its banking peers and is above the company's 10-year average. Despite the surprising size of the increase, its payout ratio as a percentage of adjusted EPS dropped to 38.3%. This ratio continues to be well below its peers. As a result, Toronto-Dominion's dividend-growth rate is poised to outperform the rest of the Big Five for the foreseeable future.

Toronto-Dominion continues to deliver for shareholders and is well positioned to deliver well into the future. An investment in Toronto-Dominion is investing made easy.

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