Toronto-Dominion Bank Stock Falls 8% in 15 Trading Days: Time to Buy?

Description

One of the leading Big Five Canadian banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), is trading 7.9% lower from its March 21, 2018, $76.32 level, and the stock closed in technically oversold territory on April 11. Could this be the time to add TD shares to your retirement portfolio?

The bank has shown excellent strategic execution over the past five years, and recent quarterly results cemented this strong trajectory.

Long-term investors in the stock have enjoyed a 72% price return over the period, while the bank's steadily growing dividend payout, which recently saw a 12% boost and now yields 3.8% on a forward-looking basis, has strongly supported investment returns by lifting the total investment return on TD stock to 102% over the last five years.

Although reported earnings per share took a 6% dip last quarter (Q1 2018) as compared to a year ago, the marginal decline was largely a result of a once-off sizeable write-down of the bank's deferred tax assets during the quarter as a result of the latest U.S. tax reform. The bank, which now has a very significant exposure to the United States's financial services market, will enjoy significant tax savings going forward after the reduction in corporate tax rate.

On an adjusted basis, earnings per share were up 17% year on year.

The bank's net interest margin has been growing sequentially over the last three consecutive quarters in the Canadian retail segment, and it has been rising on a faster rate over four consecutive quarters in the U.S retail segment too, thanks to a steadily rising interest rate environment in both countries. This trend could continue in the near term, as the economies are forecast to continue growing, and U.S. employment is likely to hit new records this year, strengthening the argument for fresh rate hikes ahead.

That said, the recent rise in world stock market volatility is a great development for TD's trading revenue growth and profitability. The bank's trading focused investee, **TD Ameritrade**, recorded a staggering 38% growth in net income in the first quarter. In fact, adjusted net income nearly doubled on a year-on-year comparable basis last quarter, as average platform trades increased by 49% year on year, and client assets rose 48% to US$1.2 trillion.

Continued global stock market turbulence may boost trading income for the bank going forward.

Some uncertainty

There is some uncertainty regarding the new risk-based capital requirements for Canadian banks right now, as the Office of Superintendent of Financial Institutions (OSFI) intends to make a quicker implementation of Basel III requirements this year ahead of the 2022 target date, with Canada-specific modifications.

The Basel III accord, an international bank regulatory framework that seeks to strengthen the global banking industry and mitigate systemic risk, has a focus on risk-based capital requirements for banks to hold adequate capitalization buffers commensurate with the risk profiles inherent in their business lines modified in 2008 to ensure the level of capital held by banks that rely on internal-ratings based models does not fall below a prescribed minimum level.

Higher regulatory capital requirements may limit risk taking, require more capital buffers, and potentially limit earnings-growth rates.

That said, TD has been one of the top well-capitalized banks in Canada and is reportedly the only bank that never triggered the minimum regulatory capital threshold since the Basel I capital requirements guidelines were effected due to its lower business risk profile, as it focuses on mostly retail banking. Even the new regulatory capital changes planned in the United States in the near term will likely have a minimal impact on retail banking outfits like TD.

Investor takeaway

TD stock is undergoing some rare weakness, and short interest has increased in the stock. However, market jitters may just be for a short while, and the bank's business portfolio will most likely continue growing strong, allowing the bank to continue increasing profitability and outperforming its local peers.

Recent investments in artificial intelligence through the acquisition of Layer 6 could lower some operating costs and boost efficiency, while the bank's new strategy of increasing in-house client-facing personnel for new bond originations could partly reduce dependence on aggressive third-party mortgage originators.

The current price weakness could be a good entry point for those bullish on the stock.

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