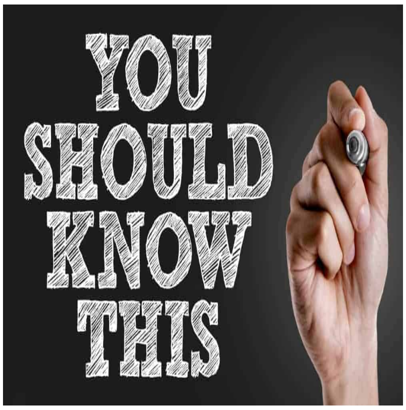

3 Takeaways From Toronto-Dominion Bank's (TSX:TD) Q4 Earnings

Description

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) released its fourth quarter earnings last week, and once again, they were excellent. Although earnings growth was not staggering, there were extremely encouraging signs in the company's crucial U.S. retail segment, which bodes well for the company's future. Indeed, these results provide hope that TD could eventually become one of the biggest retail banks in the U.S.–a massive market with tons of room to grow.

Although TD is not the cheapest or biggest-yielding bank stock on the TSX, it has long been my favourite. A quick run through the company's Q4 numbers helps to make the case that it's still among the best in its sector. We can start by looking at earnings.

Earnings were up 9%

TD Bank's earnings were up 9% in Q4. Granted, this is not enormous growth. But there was a discrepancy between reported and adjusted earnings this quarter: if we go with TD's non-GAAP figures, then earnings growth was 17%. There are reasons to believe that TD's adjusted figures are reliable, too.

For example, one of the items of note in Q4 was a set of costs related to acquisition of Scottrade. These costs included several one-time charges (severance pay, contract termination fees, etc.) that will eventually be fully paid off. I'm inclined to agree with TD's adjustments in this situation, because these costs will not recur indefinitely and therefore don't reflect the company's long-term growth picture.

U.S. retail continues to surge

Now we get to the really juicy news:

TD's U.S. retail banking segment is still on fire. In fact, its growth seems to be accelerating: in Q4, it was up a red-hot 44%, compared with 27% in Q3. Of course, there are cyclical factors that can account for different growth rates from quarter to quarter. But growth in Q4 2017 was a mere 11%. So in the fourth quarter of 2018, TD bested both the preceding quarter, and the same quarter a year before.

Now, you might be wondering why this is so important; after all, isn't this just one segment of a business that's only growing at 9% overall?"

For now, this is indeed the case. But the thing is that TD Ameritrade is currently only the 8th-largest retail bank in the U.S., and it's growing by leaps and bounds. Because of TD's relatively small position in the U.S., it could keep up this growth for a long time before facing diminishing marginal returns. No other Canadian bank has this combination of explosive growth AND room to continue growing in the huge U.S. market.

Big gains in wholesale banking

Finally, TD's gains in wholesale banking were excellent, up 24% year over year. This is a much smaller segment of TD's overall business, which is why this frothy figure combined with the even bigger numbers out of U.S. retail couldn't save TD from single-digit growth. Canadian retail banking limped along at a sluggish 5% year-over-year, and since that's the biggest segment of the business (for now), it was enough to drag the whole enterprise into single digit growth territory.

But recall what I said about U.S. retail. At current growth rates, it should eclipse Canadian retail pretty soon, and once that happens, TD could surge ahead to double digit net income growth.

All in all, I consider TD bank stock a buy.

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