Toronto-Dominion Bank (TSX:TD) Stock Could Double in 2019 if 3 Things Happen

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has delivered lukewarm results in 2018. Despite strong fundamentals, impressive growth, and a high dividend, the stock is down some 7% year to date. This is, of course, a smaller loss than the S&P/TSX Composite Index, which is down 11% this year. So, what may appear like weak performance from TD is actually a strong showing, as the stock outperformed the benchmark by about 4%.

It's not surprising that TD would beat the market averages in 2018. But is the company strong enough to deliver positive returns in a protracted bear market? Quite possibly. Not only is TD a financially sound company, but it's also a growing one, with a thriving presence in the U.S. In a best-case scenario for the company, its stock could even double in 2019. In my view, there are three things that need to happen before that can occur.

#1: U.S. retail continues growing

U.S. retail is by far the fastest-growing segment of TD's business, growing at 44% year over year. This is phenomenal growth for a bank in 2018, and although TD Ameritrade is just one part of TD, it's an increasingly large one.

If this U.S. business keeps up its high double-digit growth next year, then it could overtake Canadian retail banking to become TD's largest business unit. And if that happens, it could also kick TD's bottom-line earnings growth into high gear. The market would almost certainly take notice and reward the stock accordingly.

#2: A major recession doesn't occur

Recession is the ugly r-word that's on everyone's mind these days. We haven't seen one in about a decade, so we're long overdue. Not only that, but many harbingers of recession are currently showing their faces: falling stocks, rising interest rates, weak housing, and more.

A recession would spell bad news for TD because financials are always hit hard by economic downturns. Although the bank's conservative lending rules could protect it from too many defaults, the company still has to contend with fewer people taking out loans in a high-interest environment. I don't foresee any scenario where TD gets absolutely crushed and needs a bailout, but a recession could definitely impede the company's growth.

#3: The housing market recovers

A housing market recovery is the third and final factor we'd need to see for TD stock to double in 2019. Mortgage lending is a huge part of TD's business, and with fewer people buying houses, the smaller that business is. The problem for TD right now is that new home sales are down 12.5%, and it's even worse in some big markets like Vancouver, which saw a full 42.5% drop in November!

Obviously, all of this is bad news for TD. In order for TD's comparatively frothy growth to keep up, we'd need to see a housing market recovery in pretty short order.

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andrewbutton