Why Toronto-Dominion Bank’s (TSX:TD) Stock Price Is So Low

Description

It’s no secret that financial stocks are cheap right now. Between economic jitters, a falling housing market and all-around TSX doldrums, investors have become worried about the financial sector, sending bank stocks to rock bottom prices.

Part of this can be explained by a broader selloff that has affected both the TSX and the NYSE, the former falling by 15% in 2018. However, the late 2018 selloff was driven mainly by tech stocks, which had been overheating prior to the fall quarter. Financials were already cheap when the selloff began, so a tech stock driven correction shouldn’t have affected financials as much as it has.

Enter **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). TD is widely regarded as one of Canada’s safest bank stocks, and also among those with the best growth prospects. With its U.S. Retail Business, TD has plenty of room to grow in a market where it’s still a fairly small player. So why has the stock fallen to the point where it’s barely touching 10 times earnings?

To answer that question, we need to look at some economic factors that are driving investor sentiment regarding financials as a whole.

Recession jitters

The word *recession* had been hanging over the markets in 2018, often mentioned in op-eds, commentary shows and newsletters in the latter half of the year. Although we did not enter a recession last year, the signs were there: falling stock prices, slowing housing sales, rising interest rates, and more.

Bank stocks like TD are more impacted by broader economic conditions than some other stocks. Whereas a tech stock like **Apple** may make money in recessions because of customer loyalty or other factors, a bank stock like TD can’t escape its dependency on homebuyers and businesses taking out loans. That said, TD has a highly diversified business spanning Canada and the U.S. and encompassing everything from auto financing to wealth management, so it can afford a downturn in a few of the markets it serves.

Perceived limits to growth

One factor that could be holding back TD’s stock price is the perception that Canada’s Big Five banks face serious impediments to growth. Collectively, these banks are at market saturation in Canada, so there are few avenues to growth beyond expanding with the economy. However, this perception is inaccurate in TD’s case: TD bank has a huge presence in the U.S., and its U.S. retail business is almost as large as its Canadian retail business. In the most recent quarter, that business grew at 44% year-over-year, so TD has plenty of room to grow South of the border.

Tanking housing market

Last but not least, Canada’s housing market is slowing down.

In November, Canadian home sales slowed by 12.5%, and as much as 46% in bigger centres like Vancouver. Should this slowdown continue, it will be a problem for TD: mortgage lending is by far the biggest single segment of the company’s lending operations, with $225 billion in mortgages out of the total $1.2 trillion the company has in assets. A slowdown in new home purchases could seriously hurt TD’s growth. It’s therefore no surprise that the stock is receiving lukewarm reception this year. As lucrative as that U.S. retail business is, TD’s domestic growth is facing a setback in the short term.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/19
Date Created
2019/01/03
Author
andrewbutton