



## My Top Bank Stock for 2019

### Description

Canada's banks continue to attract bad press for a range of reasons including fears that the local housing market will go into meltdown, a weaker-than-anticipated economy and a lack of growth opportunities because of a saturated financial services market. While there is some basis to these concerns, it shouldn't deter investors from investing in what has been consistently one of the strongest performing sectors since the global financial crisis of over a decade ago.

Despite **Bank of Nova Scotia** possibly having some of the best long-term [growth opportunities](#) because of its considerable international exposure, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) offers superior growth prospects for 2019.

### Large U.S. retail banking footprint

Toronto-Dominion has invested heavily in expanding its U.S. banking footprint, where it is rated as the eighth largest bank. That business is now responsible for generating over a third of the bank's net income. In the current economic environment, this gives it a distinct advantage over many of its Canadian peers, as the U.S. economy has returned to growth and is expanding at a solid clip.

For the second quarter 2018, gross domestic product (GDP) grew by 4.2% and then by 3.5% for the third quarter, which is far greater than the 2.9% and 2% reported for Canada's economy. Personal income and consumer spending are rising as is business confidence. While the December 2018 unemployment rate rose by 20 basis points month over month to 3.9%, it is still close to a 50-year low.

In an economy experiencing such strong growth, the demand for credit and other financial services will increase at a solid clip. This will translate into a nice bump in earnings for Toronto-Dominion, which is already evident from its 2018 results. Net interest income for its U.S. retail banking operations for the fourth quarter soared by 15% year over year to \$2.1 billion, while net earnings expanded by a whopping 44% to \$1.1 billion.

While fourth quarter provisions for credit loss grew by a worrying 20% year over year to \$244 million, this was a reflection of the solid growth of Toronto-Dominion's credit portfolio, where total loans expanded by 3% to almost \$216 billion. Gross impaired loans at the end of the fourth quarter for

Toronto-Dominion's U.S. retail bank amounted to 1.3% of the total value of its loan book, 60 basis points lower than the 1.9% reported for the same period in 2017. That trend should continue for as long as the U.S. economy remains strong.

The outlook for the U.S. economy is positive, especially now that the Fed is taking a more dovish stance on interest rates and Trump has taken a more conciliatory approach with China regarding trade. That means the economic slowdown that many economists believe will occur during 2019 won't be as severe as anticipated and may not even occur now that it appears that a [trade war](#) with China has been averted.

As a result, Toronto-Dominion's U.S. loan book should continue to grow at a steady clip over the course of the year and credit quality will remain high. This will more than offset any lack of growth opportunities in Canada as the domestic housing market cools and heavily indebted households rein in spending.

The bank's overall credit quality remains high. Toronto-Dominion finished 2018 with a net impaired loans ratio of 0.37%, 0.01% lower than a year earlier. Toronto-Dominion also remains well capitalized, finishing the year with a tier one capital ratio of 13.7%, 1.4% greater than at the end of 2017 and significantly higher than the regulatory minimum.

### **Why buy Toronto-Dominion?**

Toronto-Dominion's solid growth prospects created by its large U.S. retail banking business, quality loan portfolio and diverse financial services business bode well for its earnings to grow further during 2019. While investors wait for the bank's stock to appreciate, they will be rewarded by its sustainable steadily growing dividend that's currently yielding a juicy 4%.

### **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**

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