Why Toronto-Dominion Bank (TSX:TD) Shares Are Down Following Today's Q1 Earnings Report

Description

Shares in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) opened Thursday's trading session down -3.2% following a disappointing first-quarter earnings report from Canada's second-largest financial institution.

Reported revenues of $10 billion (up 6.6% year over year) managed to beat analyst estimates by $250 million; however, the disappointment came from non-GAAP earnings, which were just $1.57 per share — a penny higher than what the company had managed to generate during the first quarter of 2017 but well short of the average analyst estimate for $1.72 per share.

TD's GAAP earnings were $1.27 per share, down from the $1.58 reported during the third quarter.

Strong results from retail operations, but a weaker wholesale market

The company reported that results during the first quarter from its Canadian and U.S. retail segments were encouraging, both showing a strong start to 2019.

Adjusted net income for TD's Canadian retail segment was up 6% over the first quarter of 2018 after excluding certain one-time charges, while its U.S. retail segment's bottom line improved by 10% in the first quarter, driven by strong growth in its TD Ameritrade business, along with improved loan and deposit volumes.

However, what held the company's overall performance back during the first quarter was weakness in its wholesale and capital markets businesses.

In its earnings release, TD stated that higher market volatility and lower activity on the part of its client base had impacted the performance of its wholesale business, which reported a loss of $17 million in the quarter, versus the net profit of $278 million it recorded in the first quarter of 2017.

Are Q1 results foreshadowing what's to come later in the year?

The concerning part about TD's first-quarter earnings release is what it may be revealing about what's to come later in the year.

It would seem as though the volatility that markets experienced in the fourth quarter of 2018 may have bled through into the first quarter of 2019, somewhat dampening investor confidence.

The statement by TD that wholesale activity slowed in during the quarter would be evidence in support of this theory.

And it stands to reason that if market participants are becoming wary of what the future may look like, that could impact their willingness to take part in capital market transactions until that uncertainty gets resolved.

If that indeed turns out to be the, case and investor confidence were to continue to wane into the second quarter, this could simply become a self-fulfilling prophecy leading to a general (and undesirable) economic malaise — a malaise that assuredly would not be welcome news for TD nor any of its competitors.

But there is some good news…

However, the good news to come out of TD's Q1 earnings report was the company's announcement of a 10% hike to its quarterly dividend.

Following the hike, TD shares now trade at a forward dividend yield of 3.89%.

Bottom line

TD shares have rallied since the open, trading down 1.7% for the day heading into the afternoon of Thursday's trading session in an encouraging sign of the stock's resiliency and perhaps some optimism about the increase to its dividend payout.

While today's disappointing Q1 results aren't enough to justify bailing on this company entirely, they also don't appear to be painting such a pretty picture as we look toward the back half of the year.

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