Toronto-Dominion Bank (TSX:TD) Results Reveal Trends in Canadian Banking Today

Description

Canadian banks have just reported their first-quarter 2019 results, and what we can take away from these results is that the future will not be as easy as the past.

The banks have had many years of profitable growth, and shareholders have come to rely on them for dividend payments as well as for capital gains. It has been all-around good times. But are the good times over? Many banks missed expectations and falling estimates are plaguing them at this time.

Let's take a closer look at some of the trends that are emerging out of the banks to help us with our investing strategy going forward.

Capital markets drag results down

The difficult market late last year was not only felt in our own portfolios, but it was also felt in the big banks' capital markets divisions.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), for example, reported a loss of 17 million as volatile debt and equity markets and lower client activity hit hard. Trading revenues were down big (48% versus last quarter and 51% versus last year), and while this business is the more volatile part of the bank, the miss was big.

Provisions for credit losses (PCLs) rise sharply

PCLs have been on the rise; in the latest quarter we have seen a sharper uptick.

At TD, PCLs increased more than 20% compared to last quarter, and while on the consumer side there is some seasonality due to the holiday shopping season, I wonder if this will be caught up as well this year as in years past.

One thing is for sure: PCL is trending higher, and the risk to the estimates is that they are not high enough.

On the bright side…

Despite the banks struggling with these issues, investors should be relatively comfortable holding on to these stocks, if not only for the solid and reliable dividends.

Capital positions remain strong

Canadian banks maintain their strong capital positions, with TD's being one of the strongest.

I do not think this is at risk, as the banks remain conservative and diversified, and this will continue to provide them with a buffer to all sorts of shocks to their individual businesses.

Dividends still rising

The missed expectations notwithstanding, many of the banks increased their dividends and kept their commitment to raise dividends and return capital to shareholders.

TD, for example, increased its dividend by 10% to $0.74 per share, as it maintained its once-a-year dividend-increase policy.

In conclusion, while most of the banks disappointed this past quarter, and while they face some headwinds going forward, they are still good stocks to turn to for dividend income, but don't expect much in the area of capital gains.

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