Warning: Wholesale Banking Could Cause Huge Problems for TD Bank (TSX:TD)

Description

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has been one of the best-performing TSX bank stocks over the past five years. Thanks to its vast and growing U.S. Retail business, it has been able to grow where other Canadian banks have stagnated. As a result, TD stock rose 44% over the past five years, while the **iShares S&P/TSX Capped Financial Index Fund** (made up mostly of Canadian banks) rose only 29%.

TD Bank's strong performance made it the darling of the Big Six for many years. In its most recent quarter, however, there were some alarming signs. Not only did the bank's EPS growth slow down dramatically, but the company's wholesale banking division took a particularly hard hit, posting a net loss. Problems in that business could potentially cause more trouble for TD down the line. To understand why, we need to take a close look at TD's Q1 2019 results.

TD's Q1 2019 results

In Q1 of 2019, TD Bank posted its slowest earnings growth in several quarters. Although net income and revenue were both up, they crawled along at 2.4% and 5% year-over-year, respectively. This is in contrast to the first quarter of 2017, when the company grew earnings by 14% year-over-year.

To be clear, not all the news out of TD in Q1 was bad. U.S. Retail, as usual, knocked it out of the park, growing earnings by 30% year over year. This is a reason for long-term optimism about TD, because the bigger U.S. retail gets (as a percentage of TD's total business), the faster their overall growth will be. However, in the short term, wholesale banking is a major concern, as we're about to see.

Why wholesale banking was a concern

In its segment by segment Q1 breakdown, TD posted wholesale banking results that were less than inspiring. The segment earned a $17 million net loss, down from a $278 million profit in Q1 2018. TD's Q1 report attributed the weakness in wholesale banking to lower trading-related revenue and higher costs. Between the two factors, lower revenue seems to have been the main culprit; it declined to $582 million from $890 million in the same quarter a year before.

Will these problems continue?

Wholesale banking is the area of commercial banking that serves large, institutional clients. Most of a wholesale bank's revenue comes from lending and borrowing to and from entities like corporations, pension funds and governments.

Because wholesale banking deals mainly with large institutional clients, its results are more sensitive to broad economic factors than to consumer behaviour. If big institutions are afraid to borrow because of high interest rates, for example, then wholesale banking will take a hit. In light of this, it's not surprising that TD's wholesale bank stumbled in Q1 2019–this period actually corresponds to the final three months of the 2018 calendar year, and as everyone knows, the market was tanking during that period. If, as some believe, a major recession is coming, TD's wholesale banking division will probably be hit even harder than it was in Q1. For now, however, it appears likely that the division will recover in Q2.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Top TSX Stocks

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
4. Top TSX Stocks

Date
2025/09/10
Date Created
2019/04/23
Author
andrewbutton