Is TD Bank (TSX:TD) Still the Best Big 6 Bank Stock?

Description

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has long been the best-performing Canadian bank stock. As the most American of Canadian banks, it benefits tremendously from geographic diversification and a large customer base South of the border. At a time when other TSX banks have been languishing, TD has outperformed thanks to its steady growth and rising dividends.

Recently, however, Canada's second-largest bank has run into some problems. After publishing its Q1 earnings report, TD revealed that it had grown earnings at just 2% year-over-year, when it had been averaging high single-digit or low double-digit EPS growth. Although the bank didn't shrink or lose money, the slowdown was widely noted by investors.

TD's slowdown came at the same time that a number of hedge funds started betting against Canadian banks, citing credit risks and a slowing economy. However, these aren't the main reasons for TD's recent troubles. To find the real reasons, we need to zoom in on the bank's Q1 report and see what caused the sluggish growth.

Slowing growth

In Q1, TD bank earned $2.4 billion in earnings on revenue of $9.9 billion. Earnings and revenue were up 2% and 6% year-over-year, respectively. The sluggish growth resulted from stagnant mortgage growth and losses in wholesale banking. The latter factor was perhaps the most important reason, as that business unit reported a $17 million loss, down from a $278 million profit in the same quarter a year before.

Wholesale banking troubles

TD's wholesale banking unit struggled in Q1. In addition to the aforementioned net loss, the unit also saw its revenue shrink by 35%. In the company's report to shareholders, it stated that the wholesale banking losses were attributable to lower trading related income and client activity.

These factors may be explained by the market correction that was going on at the time–remember that TD's "Q1" in fact corresponded to Q4 of the calendar year, which saw a huge selloff in North American equities. The bank also saw non-interest expenses in its wholesale banking unit climb 14%, which on top of sliding revenue is not a recipe for solid earnings.

U.S. retail still kicking

The good news out of TD's Q1 report was that its U.S. retail unit continued growing by leaps and bounds, this time by 30% year-over-year. As Fool contributor Joey Frenette has noted, TD is the most American of Canadian banks, and this is undoubtedly a good thing because the U.S. is a massive market where TD has plenty of room to grow. Already the eighth-largest bank in the U.S., TD could continue growing at 30% for a long time before it reached the size of the biggest banks south of the border.

This alone is reason to believe that TD bank has better growth prospects than most of its peers in the Big Six, some of which are almost entirely focused on the domestic market. However, continued losses in wholesale banking would be enough to cut into TD's bottom line earnings even if its U.S. retail business kept growing, so that will be one to watch.

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