Is TD Bank's (TSX:TD) Stock a Buy Ahead of Earnings?

Description

We are approximately a month away from Canada's bank earnings season. Should investors load up on the banking stocks before earnings? **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) gave us a preview of what to expect next month.

On Monday, **TD Ameritrade** announced third-quarter results that beat on both the top and bottom lines. Why is this relevant to TD Bank? Although it doesn't own the company outright, Toronto-Dominion owns a large ownership interest in the company.

Following Ameritrade's release, Toronto-Dominion Bank announced it is expected to book net income of $303 million in relation to its ownership interest in the company. In comparison, TD Ameritrade contributed $225 million in reported earnings to TD Bank's U.S. retail segment in the third quarter of 2018. This represents a gain of approximately 35% over last year's third quarter.

Once again, it appears that the U.S. banking system is going strong. As the most diversified south of the border, TD Bank is best positioned to take advantage.

In the third quarter of 2018, TD Bank's U.S. retail segment saw an increase in earnings of 27% year over year and accounted for 36.8% of reported net income. It is likely that TD will see a similar jump in reported earnings from its U.S. segment this year, and, as a result, expect the segment to account for a greater portion of earnings. This is important because its diversification is enabling it to overcome a stagnation Canadian market.

The best bank for growth

Analysts expect the company to post earnings of $1.79 per share, up 7.8% over last year's third quarter. This is the top predicted growth rate among its peers.

Will the company beat expectations? It is worth noting that over the past five years, TD Bank has only missed on quarterly earnings estimates four times. In every other quarter, it has topped the average analyst estimate. As such, the odds are certainly in its favour.

Not only is TD Bank expected to poster higher growth this quarter, but analysts expect the company to post average earnings growth of 7.73% annually over the next five years. Once again, this growth rate is best in class and more than double some of the industry's laggards.

Don't be swayed by bearish views

Over the past several years, short-sellers and bearish investors have been warning investors against Canadian banks. When news first hits the stand, the Big Five typically see some sort of price weakness. Don't fall for short-sellers' self-serving traps.

Despite all the doomsday warnings, Toronto-Dominion continues to post strong returns. Year to date, its stock is up 13.28%, tops among the Big Five. This streak of outperformance has extended over the past two, five, and 10 years. Best-in-class returns has been TD Bank's defining characteristic.

Should you buy Toronto-Dominion Bank's stock ahead of earnings? Absolutely. You don't time a purchase in this bank; just sit back and relax. An investment in TD Bank is passive investing at its finest.

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Date
2025/09/09
Date Created
2019/07/24
Author
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