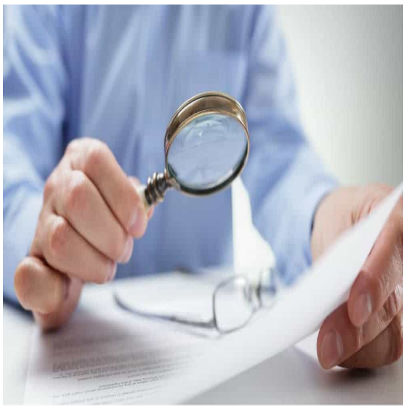

1 Reason to Avoid TD Bank (TSX:TD) After Earnings

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) released its third-quarter 2019 results on August 29. Earlier this month, I'd previewed Canada's second-largest bank ahead of its earnings release. TD Bank has benefited from a roaring United States economy over the past two years, but risk is rising south of the border.

Rates are weighing on margins

Nearly a decade of historically low interest rates has provided a friendly environment to issue credit, but banks have also battled narrow margins. Central banks attempted to pursue tightening in recent years in response to improved economic conditions. This had been a boon for bank earnings in the near term, although higher rates did keep pressure on other areas like credit expansion.

Central banks in the developed world have retreated from this position after market volatility returned with a vengeance in late 2018. The worsening trade war between the U.S. and China has also kept up policy makers. In a highly anticipated move, the U.S. Federal Reserve dropped its benchmark rate in July. The Bank of Canada is expected to follow suit, but this may not occur until the next calendar year.

TD Bank felt this pinch in its third-quarter report. Margins in its U.S. Banking segment suffered a decline of 11 basis points, and its Canadian Banking segment reported a basis point drop of three. Growth slowed in its U.S. segment, which I'd discussed as a risk in the article linked above. This is worrisome, as its U.S. segment has provided explosive growth over the past several quarters. Net income on an adjusted basis rose 11% year over year to $1.28 billion. Lower margins were offset by higher loan and deposit volumes.

In the year-to-date period, TD Bank has posted adjusted net income of $9.55 billion compared to $9.13 billion in the first nine months of 2018. Worsening margins aside, this was a solid quarter for TD at a glance. It achieved growth in all its business segments, but broader headwinds remain a concern. This is true for its peers as well.

Should you buy TD Bank today?

TD Bank stock has dropped 7% over the past month as of close on August 29. Shares had an RSI of 36 as of close on August 29, putting it just outside technically oversold territory.

The stock had a price-to-earnings ratio of 11.5 and a price-to-book of 1.6 at the time of this writing, both in line with its industry peers. TD Bank maintained its quarterly dividend payment of $0.74 per share, which represents a solid 4.1% yield. The bank has achieved dividend growth for eight consecutive years.

TD Bank is still in decent shape after an earning miss, but I'm looking for better value before pulling the trigger on a purchase right now. If the stock slips below $70 investors should start thinking about buying at what will be a discount.

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