



Is Toronto Dominion Bank (TSX:TD) Stock Now Oversold?

Description

Canada's largest banks have taken a hit this year amid growing concerns about a potential global recession. This has investors with an eye for value wondering whether the sell-off has gone too far.

Let's take a look at **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) to see if it deserves to be on your [buy list](#) today.

Earnings

TD reported fiscal Q3 2019 results that came in a bit lower than consensus expectations. Canada's second largest bank by market capitalization generated adjusted net income of \$3.34 billion, or \$1.79 per share compared to \$3.13 billion or \$1.66 per share in the same quarter last year.

For the nine months ended July 31, the company reported adjusted net income of \$9.56 billion, or \$5.11 per share, compared to \$9.135 billion or \$4.84 per share in fiscal 2018.

A 7% increase in adjusted quarterly earnings on a year-over-year basis is pretty good for the bank in the current environment. TD remains on track to earn more than \$12 billion in fiscal 2019.

The Canadian retail banking group reported a 3% increase in adjusted net income supported by a 6% jump in revenue.

The U.S. division had a better quarter, with adjusted net income rising 13% to \$1.29 billion. TD Ameritrade, the discount broker that is 50% owned by TD, saw earnings jump 31% compared to fiscal Q3 2018 and contributed \$294 million to the U.S. results.

Risks

The ongoing trade war between the United States and China could push the American economy into a recession. The U.S. division will soon represent 40% of TD's overall profits, so a sharp downturn south

of the border would potentially hit the bank quite hard.

In addition, any slowdown in the U.S. economy normally hits Canada, given the country's status as Canada's largest trading partner.

Opportunity

Safe-haven demand is driving down bond yields, thus allowing TD and its peers to offer lower rates on fixed-rate mortgages. This should bring new buyers into the Canadian housing market while helping existing homeowners renew at favourable rates.

The impact should be reduced odds of a housing meltdown, which has been a fear in recent years when interest rates were in the rise. TD has a large mortgage portfolio and any steep decline in house prices triggered by a wave of defaults would be negative.

Dividend

TD is a favourite pick among [dividend investors](#), and for good reason. The company has raised the payout by a compound annual rate of about 11% over the past two decades. Earning growth will likely be in the range of 7-9% for fiscal 2019, so the 2020 dividend hike will probably be in that range.

At the time of writing, investors can buy the stock for \$71.50 per share and pick up a 4% yield.

Is TD cheap today?

TD traded for close to \$80 per share at this time last year, so there is some decent upside potential when sentiment shifts in the banking sector.

With a current price-to-earnings multiple of just under 12, the stock isn't a screaming buy, especially when compared to its smaller Canadian peers. However, TD is widely viewed as the safest pick among the big Canadian banks, so a premium is expected.

The markets could see additional volatility in the coming weeks, and it wouldn't be a surprise to see another correction ahead of the Brexit deadline at the end of October. As such, I wouldn't back up the truck today, but if you have some cash on the sidelines, I would look to buy TD on additional weakness.

As a buy-and-hold pick, the bank should be a solid addition to your portfolio. After all, the company makes about \$1 billion in profit per month!

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