Toronto-Dominion Bank (TSX:TD) Is an Even Better Buy After a Strong Q3

Description

Last week, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) released its quarterly results, which failed to generate much excitement among investors despite the bank posting another record profit.

Although reported net income of $3.2 billion was up 4.6% from last year's results, the numbers fell short of what analysts were expecting from the big Canadian bank. Revenues reached $10.5 billion and were up by around 6% year over year.

The numbers didn't impress investors, however, with the stock rising by just 0.5% on the day, but CEO Bharat Masrani was much more optimistic with the results: "Our record earnings are a testament to the strength of our diversified business model which enables us to enrich the lives of our customers as we continue to innovate for the future."

TD is indeed one of the more diversified banks that investors can choose from, with a strong presence in both Canada and the U.S. giving the company the ability to benefit from both markets.

Segment analysis

Here's a quick look at how the company did in terms of sales, across its different segments:

Sales (in millions)

Segment	2019	2018	Change ($)	Change (%)
Canadian retail	$6,146	$5,799	$347	6%
U.S. retail	$2,986	$2,812	$174	6%
Wholesale banking	$914	$809	$105	13%

The growth was consistent on both sides of the border, which is what would be expected given how strong both economies have been. However, there is a bit more disparity when looking at the reported net income:

Reported net income (in millions)				
Segment	2019	2018	Change ($)	Change (%)
Canadian retail	$1,890	$1,852	$38	2%
U.S. retail	$1,287	$1,143	$144	13%
Wholesale banking	$244	$223	$21	9%

What's notable is the decrease in the Canadian Retail net income, which was largely eroded away by higher credit losses of $70 million during the quarter, a 28% increase year over year. Also, costs related to insurance claims were $85 million higher as well, which can sometimes generate some volatility in the segment's earnings.

Overall, the bank still showed good growth across all its major lines of operations, which is what investors would expect from the bank stock during good economic times.

Margins are shrinking

One of the reasons that investors are worried by the results is that TD's net interest margins have been decreasing. At 2.96% in the Canadian retail segment, margins were slightly down from the 2.99% that the bank earned in the previous quarter, although still up from last year's margin of 2.93%.

On the U.S. side, there was more of a difference, with this period's margin of 3.27% being down both from Q2 (3.38%) as well as the prior-year quarter (3.33%).

If interest rates are reduced, we could see these margins continue to get smaller, which could be bad news for the stock.

Should investors buy the bank stock today?

With TD bank stock continuing to struggle as of late, now could be a good time to buy. This is a stock that could soar much higher given its earnings and how well it's performed over the years.

While there are concerns about the economy and the banks in general, these are short-term issues that shouldn't impact the returns that could be generated by holding TD stock for years. The dividend alone is a great reason to put it in your portfolio — one investors can expect to grow over the years as well.

The results in Q3 may not have given much of a reason for investors to get excited, but they didn't raise significant alarms either.

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