Is Now the Time to Buy TD Bank (TSX:TD) Stock?

Description

Last week, the bank earnings season came to a close as all Canada's big banks reported third-quarter earnings. The results were decidedly mixed, with several beats and misses. The third quarter was somewhat of a paradox.

Chronic underperformers **Bank of Nova Scotia** and **Canadian Imperial Bank of Commerce** beat on both the top and bottom lines.

On the flip side, some of the strongest performers from the past number of years, **Bank of Montreal** and **Royal Bank of Canada** missed on earnings and revenue.

What about Canada's top-performing bank of the past decade? **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) posted mixed third-quarter results. Earnings of $1.79 missed by a penny and revenue of $10.5 billion beat by $710 million.

Is now the time to buy TD Bank? Let's take a look

Strong growth

There weren't many surprises within Toronto-Dominion Bank's third-quarter results. The company ended the week flat, and it eked out a small 0.36% gain the day following the release of results. It was a steady quarter for Canada's most successful bank.

Despite the miss, earnings per share represented 7.83% growth over the third quarter of 2018. It is worth pointing out that this was the top growth rate among its peers. Likewise, 6.1% revenue growth was second only to Bank of Nova Scotia's impressive double-digit (11%) growth.

TD Bank saw growth across all its segments. Adjusted net income grew in Canadian Retail (+3%), U.S. Retail (+11%), and Wholesale Banking (+9%) segments. **TD Ameritrade**, which contributes to its U.S. Retail segment contribute $294 million, up 21% year over year.

It re-iterated its status as the Big Five bank with the best growth prospects. Analysts expect earnings growth of approximately 6.5% over the next five years.

Provision for credit losses

Bears tend to zero in on provision for credit losses (PCL). This is an estimate on the potential losses the banks may incur due to credit risk. The number represents the percentage of loans outstanding that are deemed to be unrecoverable and are booked as a loss.

Although we have seen PCL tick up slightly in recent quarters, there is still little to worry about. This is especially true at Toronto-Dominion Bank.

PCL came in at 0.38%, which is actually one basis point lower than it was last quarter and only three basis point higher than it was in the third quarter of 2018. Yes, that is correct: PCLs increased by a mere 3/100th of a percentage point. This is reflective of the bank's high-quality loan portfolio.

Excellent value

Third-quarter results did nothing to alter the fundamental outlook for the company. Last fall, TD Bank fell to levels not seen since the financial crisis. Well, we are here once again. At 10.64 times earnings, TD Bank is cheap.

Canada's big banks typically trade in line with historical norms, which, in TD's case, is 12.63 times earnings. A such, TD Bank should be trading closer to $86.50 per share. This implies that there is approximately 19% upside from today's share price of $72.20 per share. Analysts see similar value and have a one-year price target of $82 per share.

Is now the time to buy TD Bank stock? The answer is a resounding "yes."

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