Should You Buy Shares of Toronto-Dominion Bank (TSX:TD)?

Description

Amid a tightening economic environment and the threat of lower interest rates, banks are under increasing pressure to show that they can perform relatively well in the current climate. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is perhaps better equipped than most of its peers to do so due to its geographically diverse operations.

However, TD Bank's latest earnings report was not particularly well-received. The company's management, however, expressed optimism about its prospects. Of course, the job of management is to put a positive spin on any financial results, no matter how poor they may be.

But perhaps we need to take a closer look at the Toronto-based financial institution. Should you buy shares of TD Bank today?

The case for TD Bank

TD Bank is one of the largest Canadian banks by market cap, and the company holds a healthy share of the domestic market. The firm also possesses a strong presence in the U.S. — stronger than that of any of its peers. Not only does TD Bank own more branches south of the border than any other Canadian bank, but the company also owns about 40% of **TD Ameritrade**.

TD Bank does an admirable job of performing well within both Canada and the US, which account for about 60% and 30% of its revenues, respectively. The firm's latest financial results showed notable increases in both Canadian and U.S. retail sales.

Further, the company recorded a record profit. TD Bank's net income was $3.2 billion, a 4.5% increase year over year. TD Bank's exposure to the U.S. market has been increasing in recent years. Such strong exposure to two lucrative markets makes the company attractive.

TD Bank offers investors several more incentives to investors, perhaps most notably its dividends. The company currently boasts a juicy dividend yield of 4.09% and a payout ratio of just under 45%. TD Bank's dividends have grown by 57% over the past five years. Finally, TD Bank currently trades at just 11.59 times past and 10.16 times future earnings.

The case *against* TD Bank

Despite its seemingly excellent financial results, TD Bank did not post earnings on par with analyst estimates. In addition, digging deeper into TD Bank's latest earnings reports reveals a worrisome trend. The company has generally posted higher interest margins than those of its peers.

During its last few quarters, however, net interest margins have been decreasing, and this is especially worrying given that interest rates might be slashed. If the firm continues to lose ground to its competitors in this department, it could spell trouble down the road. Considering the current shaky economic environment in North America, the company's latest earnings report did little to assuage investors' fears.

Should you buy?

TD Bank's latest quarter might have been a bit disappointing. However, the firm's strong position in both Canada and the U.S. is an advantage that outweighs its recent shortcomings.

Note that the banking sector is usually hit hard during a recession, so it wouldn't be surprising if TD Bank is, too. The company's long-term thesis, though, remains intact. TD Bank is still an attractive option, especially for investors who aren't phased by short-term volatility.

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