Toronto-Dominion Bank (TSX:TD): Should You Buy the Stock on the Dip?

Description

The share price of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is down in recent trading due to events that are occurring in the U.S.

Let's take a look at the current situation to see if the pullback is an opportunity to buy the stock or a signal to stay on the sidelines.

Free trading

The discount trading market in the U.S. has attracted major attention in recent days after industry pioneer **Charles Schwab** announced it would eliminate trading fees for stocks and ETFs. The news sent the share price of the company and its competitors, including **TD Ameritrade Holdings**, into a tailspin.

TD Ameritrade, 50% owned by TD, was forced to announce its own plan to eliminate online trading fees for stocks and ETFs effective October 3 in order to keep its customers from bailing out and taking all their money to the competition. At the time of writing, the stock trades at US$33 per share on the NASDAQ, compared to the US$46.70 close on October 1.

The 30% decline in the share price at TD Ameritrade has had an impact on the shares of TD. The stock trades at $72.25 per share on the TSX, compared to $77.25 earlier this week.

Is the sell-off overdone?

In its fiscal third-quarter 2019 earnings report, TD said its share of TD Ameritrade contributed adjusted earnings of $294 million. TD's complete U.S. retail operations earned adjusted profit of $1.29 billion and the entire bank generated adjusted earnings of $3.3 billion in the quarter.

Given that TD Ameritrade accounts for roughly 9% of total profits, TD's stock price would be expected to take a bit of a hit. The reaction appears reasonable at this point, especially if investors areconcerned the same thing will occur in Canada.

Another contributor to the stock's recent decline is a broad-based sell-off in the equity markets. The Dow is off more than 1,000 points in the past three days. The S&P TSX Composite Index is off 500 points, or nearly 3%.

Should you buy TD?

TD remains a very profitable company. Adjusted earnings in the third quarter increased 7% compared to the same period last year. That occurred despite housing and trade headwinds. The plunge in bond yields that occurred in recent months has led to a drop in fixed-rate mortgage costs and this is adding a new tailwind to the Canadian housing market. As a result, TD's Canadian operations could surprise to the upside in the next couple of quarters.

The company is well capitalized and continues to increase its dividend at a steady pace. Earnings per share are expected to grow at least 7% per year over the medium term. The current dividend provides a yield of 4.1%.

The stock still trades above its 2019 low around $71.50 and the 12-month low near $66 that it hit last December during a rout in financials stocks. With the entire market in correction mode, we could see additional downside before bargain hunters put a floor under the stock's slide.

That said, any pullback in TD's share price has historically proven to be a good buying opportunity. If you have some cash sitting on the sidelines, it might be worthwhile to start nibbling today and look to add to the position on any further downside, especially if TD slips back to the 2018 low.

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aswalker