RRSP Investors: Is TD (TSX:TD) Stock a Buy Today?

Description

The Canadian banks just turned in a mixed bag of earnings for fiscal Q4 2019, and investors are wondering if this is a good time to add financial stocks to their portfolios.

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

Headwinds

TD reported fiscal Q4 2019 revenue of $10.34 billion, up about 2% from the same period last year.

Expenses climbed 3%, primarily due to $154 million in restructuring charges. The larger hit came from provisions for credit losses, which jumped from $670 million in Q4 2018 to $891 million.

As a result, adjusted net income slipped $102 million to $2.946 billion. On a diluted per-share basis, earnings fell to $1.59 from $1.63 in the same three months last year.

In Canada, the retail business, which includes personal and commercial banking operations, saw provisions for credit losses increase to $400 million from $263 million in Q4 last year. That's a big jump and is part of the reason the stock took a hit in the days following the earnings release.

TD's share price is currently below $73, compare to being above $75.60 before the results. It still trades well above the 12-month low we saw last December, but more downside could be on the way in the coming weeks.

Why?

There is mounting evidence the economy is weakening and the latest Canadian employment numbers haven’t helped the mood. The Canadian economy lost 71,000 jobs in November, compared to an expected gain of 10,000. That bumped the unemployment rate up from 5.5% to 5.9%. It was the worst monthly jobs hit since the Great Recession.

Pundits are speculating this could push the Bank of Canada to cut interest rates in early 2020.

The central bank has held rates steady in 2019, while the U.S. Federal Reserve cut three times. A rate reduction would put pressure on net interest margins (NIM). TD saw NIM remain flat in Canada in the most recent quarter. South of the border, however, the impact of the rate cuts by the Fed are evident, as TD’s NIM slipped 15 basis points on a year-over-year basis.

On the positive side, lower rates in Canada could help stem the rise in provisions for credit losses. Reduced costs on variable rate loans would help debt-laden businesses and homeowners pay their bills.

The drop in bond yields over the past year has already resulted in lower fixed-rate mortgages. This is providing a new tailwind for the housing market as more new buyers can afford to purchase and those with existing mortgages can renew at favourable rates.

The benefit should start to show up in TD’s numbers, as the bank counts on home loans for a good chunk of its revenue.

Dividends

TD is one of Canada’s top dividend stocks.

The board raises the payout steadily in line with increased earnings per share and the distribution currently provides a yield of 4%.

Looking ahead, we might not see dividend increases keep pace with the track record over the past 20 years, but the distributions should continue to grow.

Should you buy TD stock?

TD is a very profitable company, and while the Q4 results might not have been as robust as analysts had hoped, the bank is certainly not in trouble.

An economic downturn will eventually arrive, and the longer the trade war between the U.S. and China persists, the bigger the risk the next recession could be deeper than anticipated.

Given the uncertainty in the market, I wouldn’t back up the truck to buy TD today, but further downside should be viewed as an opportunity for RRSP investors to start nibbling on the stock.

Historically, meaningful dips in the share price have proven to be rewarding opportunities for buy-and-hold investors.

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