Is TD Bank (TSX:TD) Still Canada's Best Banking Stock?

Description

For many years, **TD Bank** (TSX:TD) has been known as the premier banking stock in Canada. But the stock has been on a roller coaster this year. The shares traded above $77 during the months of July, September, and November, only to be beaten back down each time. The stock, as of this writing, is trading at $74.59.

The stock's gains during the past 52 weeks, currently at 7%, have been dwarfed by those of its competitors, **Bank of Montreal** and **Royal Bank of Canada**. These stocks have gained 13.17% and 11.11%, respectively.

TD Ameritrade buyout

By far the biggest news regarding TD this year is the **Charles Schwab** – **TD Ameritrade** buyout. This deal came in response to the war that erupted as several brokerages began offering no-fee trading.

In October, Schwab was the first of the major brokerages to introduce free trades, quickly followed by Fidelity and TD Ameritrade.

The merger of Schwab and TD Ameritrade, the two biggest publicly traded discount brokers, will create a behemoth serving more than 24 million clients.

The new brokerage will have more than $5 trillion in client assets: $3.8 trillion from Schwab and $1.3 trillion from TD Ameritrade.

In the agreement, TD's 42% stake in TD Ameritrade will be swapped for a 13.4% stake in Charles Schwab.

U.S. operations slowdown

One of the reasons that TD has been a leader in Canada's banking sector is the bank's aggressive expansion into the U.S. TD Bank currently maintains over 1,300 branches in the U.S. and has a dominant online banking presence.

However, in the company's most recent quarter, U.S. retail revenue growth decelerated, increasing just 7% year over year compared with 20% to 50% in previous quarters.

The bank's U.S. retail arm had long been the company's growth engine and the main reason for its outperformance compared to other Canadian banks.

However, with revenue growth in the U.S. slowing down, the bank has fewer options to make up for revenue declines in other business units, like wholesale banking.

Headwinds to the banking industry

Several analysts are noting a cautious outlook with regard to Canada's banks. Credit risks are the largest threat to the banks and will likely remain so as lenders face the fastest pace of commercial and consumer insolvencies since the financial crisis.

Experts point to the credit risks in 2015 and 2016, which were largely concentrated in the oil and gas industries in the country's Western provinces.

Now however, insolvencies have risen throughout the country and are occurring in multiple businesses, including manufacturing, transportation, retail, automotive, and health services. Any hint of economic decline could stretch the credit industry even further.

The bottom line

It's been an interesting turn of events for TD Bank, which had previously shown the strongest growth among Canada's Big Six. Some will argue that TD's slowing presence in the U.S. and its yet-to-be-determined impact of the TD Ameritrade deal would be reasons to avoid the stock.

However, as financials are a key component of a well-diversified portfolio, savvy investors should consider TD Bank's less than stellar year as a chance to load up on this banking stock.

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