Why the Toronto-Dominion Bank (TD) Stock Price Fell 4.9% in December

Description

December was a rough month for the Canadian banks, to put it mildly. Even the leaders like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) got whacked. In fact, TD's stock price fell 4.9% in December amid growing pressure on the bank's fundamentally bullish investment case. Let's explore this in more detail in order to decide what action to take, if any.

Weak fourth quarter results

December 2019 saw the release of TD's fourth quarter results; results that were significantly weaker than the market had expected and that signalled rough days ahead.

Earnings per share came in at $1.59, compared to consensus expectations of $1.74, for a significant earnings miss. Even after adjusting for certain one-time charges, EPS of closer to $1.69 was still significantly below estimates. All segments came in below expectations, with Canadian retail banking the biggest disappointment.

Provisions for credit losses were far higher than expected. Loan growth slowed, provisions rose, and the efficiency ratio deteriorated, all negative results for the bank after a stellar 2018.

The wholesale banking segment reported a sharp drop in net income, which came in at $160 million compared to $286 million last year. This was a function of sharply higher provisions for losses, and lower equity underwriting and advisory fees.

Credit ratios have and will continue to deteriorate and loan loss provisions have and will continue to rise. We have already seen this in recent quarters, and this latest quarter should serve as a warning signal to investors to get ready for worse.

Buy the dip?

While investors should expect earnings pressure on TD and the Canadian banks in general to continue in 2020, recent price weakness should have long-term investors (which we Foolish investors are) ready to add to their positions on stock price weakness. The time to pull the trigger will come, as pressure on the Canadian banks continues and as we potentially see a weak year ahead for the market as a whole.

I would therefore remain ready and vigilant and on the lookout for more short-term stock price weakness in TD stock. Buying the dips in the coming months would be a smart move, as I believe the long-term investment thesis for TD stock remains intact.

Taking a long-term view

TD is a Canadian bank with an unrivalled leadership position and history of success. And this success has translated very nicely to shareholders, with a five-year compound annual growth rate (CAGR) in dividends of 9.5%, a dividend policy of annual increases, and a stock price that has risen more than 40% in the last five years.

Foolish final thoughts

In conclusion, I think it is fair to say that Canadian banks have a rough time ahead of them. But herein lies the opportunity, and for those investors who are ready to add on TD stock price weakness, there is good money to made in the long term.

Finally, I would like to remind foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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Date
2025/07/02
Date Created
2020/01/07
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