TFSA Investors: Avoid This Top 3 Bank!

Description

TD Bank (TSX:TD)(NYSE:TD) was formed through the amalgamation on February 1, 1955, of The Bank of Toronto and **The Dominion-Bank**. Its principal business operations are in Toronto, Ontario.

The company reports three business segments that operates domestically and internationally, including Canadian Retail, United States Retail and Wholesale Banking. The company reports a market capitalization of $132.58 billion with a 52-week low of $67.12 and a 52-week high of $77.96.

Intrinsic price

Based on my calculations, using a comparable company analysis (CCA) model, I determined that TD Bank has an intrinsic value of $54.37 per share.

At the current share price of $73.22 at writing, I believe that TD Bank is substantially overvalued. Investors looking to add a bank stock to their TFSA should not buy shares of TD Bank due to the premium that investors will be paying over its intrinsic value.

TD Bank has an enterprise value of $113 billion, which represents the theoretical price a buyer would pay for all of TD Bank's outstanding shares plus its debt.

Financial highlights

For the fiscal year ended October 31, 2019, the company reports a strong balance sheet, with $49.5 billion in retained earnings, up from $46.1 billion in 2018. This is a good sign for investors, as it indicates that the company's previous surpluses have been reinvested into the company.

TD Bank reports shareholders' equity of $87.7 billion, goodwill of $17 billion and intangibles of $2.5 billion for tangible net worth (equity minus intangibles minus goodwill) of $68 billion. As TD Bank's retained earnings increases, its TNW will follow suit. This is a good sign, as TNW is regarded as the real value of a company.

Overall revenues are up materially to $41 billion in 2018, from $38.9 billion in 2018 (over 5.6%), offset by growth in expenses for pre-tax income of $13.2 billion. After taxes, net income is up slightly to $11.4 billion, up from $11.1 billion in 2018 (over 3%).

From a cash flow perspective, TD Bank is aggressively exercising its normal course issuer bid (NCIB) with the repurchase and cancellation of $2.2 billion of common shares ($1.5 billion in 2018 and $1.4 billion in 2017). This is a strategy that management uses to suggest the current share price is undervalued.

TD Bank is very prudent when it comes to debt management, as indicated by the issuance of debt amounting to $1.75 billion in 2019, $1.75 billion in 2018 and $1.5 billion in 2017, offset by the redemption of debt amounting to $2.5 billion in 2018 and 2017. The company reported a $24 million cash inflow on the redemption of debt in 2019.

TD Bank is a dividend paying entity with a current yield of 4.04% achieved through quarterly payments of $0.74 per share.

Foolish takeaway

Investors looking to buy shares of a bank should avoid adding TD Bank to their TFSA. Despite the company's positive retained earnings, continued profitability and proactive debt management, the company's EV/Revenue and P/E multiple is greater than the median for banks.

EV/Revenue and P/E multiples are used by analysts to determine whether the current share price of a company is trading above, below or at fair value when bench marked to its peers.

At its current price of $73.22, I believe that TD Bank is trading significantly above its intrinsic value of $54.37. Thus, I believe that TFSA investors will be better off putting their money in another bank stock.

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