
TD Bank (TSX:TD) Stock Looks Like Canada's Cheapest Bank

## Description

The Canadian banks are still in a rut. Macro headwinds have weighed, and most analysts agree that Canadian bank investors should expect more of the same through 2020.

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With the global growth grinding to a halt as a result of the devastating economic impact of the COVID-19 virus, interest rate cuts are a growing possibility, which equals more bad news for the big banks that have already suffered from a bad bout of thinning net interest margins.

**TD Bank** (TSX:TD)(NYSE:TD), Canada's most American and ESG-friendly bank, has seen its shares taper off in recent years, leaving investors with little more than the dividend to show for their patience over the last two years.

With a dividend yield of 4% and a forward price-to-earnings (P/E) multiple of 10.9, TD Bank is hardly Canada's "cheapest" bank given CIBC has seen its forward P/E fall below 9 in many instances over the past few months.

Warren Buffett said, "Price is what you pay. Value is what you get."

When you weigh the calibre of business you're getting for the price paid, though, TD Bank is by far the best bank for your buck. The banks are navigating some pretty rough waters, with sluggish growth and more risks on the horizon.

When you consider TD Bank's track record of effective risk management, however, it becomes clear that the premium defensive traits and the "aura of conservative practices" of the bank will pay off relative to many of its peers when times become tough, making TD Bank arguably the cheapest bank from a risk/reward perspective.

## You can't keep a good dog down!

TD Bank stock is known to come roaring back when the tides finally turn. Just have a look at howsharp the rebound was after the downfall that came with the 2007-08 Financial Crisis!

While the current Canadian credit downturn is a long time coming, the next phase of the credit cycle will inevitably present itself. Credit will become easier to access again, and the Canadian banks will have an easier time posting impressive profitability numbers.

Of course, you shouldn't buy with the expectation that things will turn around this year or even next year. Amid such challenging conditions, growth is expected to re-accelerate at a modest pace, so the biggest winners will be those patient investors with a long enough time horizon.

## Foolish takeaway

Full-year adjusted EPS for TD Bank grew at just 3.4% last year, and although management has done a decent job of navigating the rough waters relative to its peer group, it's unrealistic to expect a return to 10% EPS growth this year, especially with the potential for interest rate cuts that could rub more salt in the wounds of the banks that are already under tremendous pressure.

Still, TD Bank has a relatively risk-off deposit mix, so I expect muted downside if macro headwinds worsen. For now, investors should pick up the stock while it's cheap and collect the generous 4%-yielding dividend, which is slated to grow in spite of the unfavourable conditions ahead.

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Who knows? As the hunt for quality yield gets tougher, the high-quality banks may get a boost that could offset any potential interest-rate-related pressures.

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