TD's (TSX:TD) Stock Price: Should You Buy the Dip?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) just reported fiscal Q1 earning results that missed analyst expectations, and investors responded by driving the stock to a 12-month low.

Let's take a look at Canada's second-largest financial institution to see if it deserves to be on your buy list today.

Results

TD reported adjusted net income of $3.07 billion for the first three months of the fiscal year compared to $2.95 billion in the same period last year. On a per-share basis, diluted earnings came in at $1.66, representing a 6% year-over-year increase.

In the Canadian retail banking operations, loan volumes increased 4%, deposit volumes rose 7%, and wealth assets increased 10%. Despite the solid growth, adjusted net income slipped 2% compared to Q1 2019.

South of the border, TD has a large retail banking presence that stretches from Maine all the way down the east coast to Florida. Interest rate cuts made by the U.S. Federal Reserve last year put pressure on TD's net interest margins. Net income in U.S. dollars fell 7% year over year for the quarter, and 8% when converted to Canadian currency.

The wholesale banking group was the star in the first quarter with revenue rising 23% compared to the previous quarter and up 80% over Q1 2019. Net income in the group came in at $281 million compared to $160 million in Q4 2019 and a loss in fiscal Q1 last year.

Results in this division tend to be more volatile than in the other business segments.

Risks?

Provisions for credit losses jumped from $855 million in Q1 2019 to $923 million. The largest increase occurred in the Canadian retail banking segment rising from $310 million to $391 million. Provisions for credit losses in the U.S. retail banking group rose from $311 million to $323 million.

Canadians are carrying record levels of debt, and there is a risk business loan defaults could rise if the economic impact from the coronavirus outbreak becomes more widespread.

On the housing side, TD finished Q1 2020 with $293 billion in Canadian residential housing loans. Insured loans cover 30% of the portfolio and the loan-to-value ratio on the uninsured portion is 54%. This means house prices would have to fall considerably before TD takes a meaningful hit.

Interest rates are expected to remain stable or even fall in the medium term, and plunging bond yields will make fixed-rate mortgages cheaper. As a result, existing homeowners will be able to renew at decent rates.

A steep increase in unemployment would be the biggest risk to the bank. For the moment, the Canadian jobless rate remains low.

Dividends

TD just raised its quarterly dividend by $0.05 to $0.79 per share. That's good for a yield of 4.5%.

The dividend increase indicates the board is comfortable with the bank's revenue and profit outlook. TD has raised the payout by a compound annual rate of about 105 over the past 20 years.

Should you buy?

TD is down from $76 per share last week to $70 at the time of writing. More weakness could be on the way in the near term if the broader market correction picks up steam. However, the stock is starting to look cheap and history suggests that buying TD on any meaningful dip tends to be a smart move for buy-and-hold investors.

At the current price, you get paid well to wait out any additional volatility and further downside should be viewed as an opportunity to add shares to the position.

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