



TD Bank (TSX:TD) Stock Has Gotten Too Cheap to Ignore

Description

In the recent market crash, Canadian bank stocks have been among the hardest hit equities. Thanks to their exposure to mortgages, oil and gas loans and declining consumer credit, they're vulnerable to the economic contagion we're witnessing.

Long before the COVID-19 crisis began, several hedge funds had bet against Canadian banks, with consumer credit weakness forming the core of their thesis. Now, the banks have got more problems on their hands. With out of work Canadians needing mortgage deferrals and oil and gas companies likely to default, the Big Six are up their necks in trouble.

However, one bank may be able to buck the trend.

With about 33% of its earnings coming from the U.S., **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) has more geographic diversification than other Canadian banks. Because of this, it has less exposure to the problematic oil & gas loans and shaky consumer credit plaguing financial institutions.

Additionally, TD Bank's stock has gotten extremely cheap—which when combined with its geographic diversification, may make it a good buy right now.

A single-digit P/E ratio

As a result of the bear market we've entered, TD Bank now trades at just 8.6 times trailing earnings, the cheapest the stock has been in a long time. The Big Six banks have always traded at fairly low multiples, but TD was historically averaging about 11 or 12, as it has had much stronger growth than its peers over the past decade due to the strength of its U.S. retail business.

Now, TD's stock is [dirt cheap](#). To an extent, the lower stock price is justified, because banks' earnings will take a hit from COVID-19 and weak oil. However, as you're about to see, [TD's U.S. retail business](#) could once again be its ace in the hole.

How a recession could affect TD

Right now, both the U.S. and Canada are likely in recessions. We'll have to wait a few weeks on the GDP numbers, but with all the businesses that have shut down, it's all but certain.

That said, not all recessions are created equal. The U.S. economy is not as oil & gas oriented as Canada's: Energy is composed about 10% of Canada's GDP, but less than 8% of America's.

So, while the U.S. has the COVID-19 shutdowns to contend with, it won't be hit as hard by weak oil, which could mean that the U.S. recession will be less severe than Canada's.

If that's the case, then TD's U.S. retail business will perform better than its Canadian business, potentially offsetting some of the bank's domestic losses and help it weather the current storm.

While that doesn't exactly make TD a screaming buy, for those who already like bank stocks, it could make it more attractive than its peers.

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