Is TD Bank’s (TSX:TD) Stock a Buy After Its Latest Announcement?

Description

In the recent stock market crash, Canadian bank stocks were among the hardest hit equities. Thanks to their exposure to mortgages, oil & gas loans and credit card debt, they predictably tanked. Almost all stocks nosedived after the one-two punch of COVID-19 and the oil price collapse.

However, the **TSX Index** was down 24% for the year as of Friday, whereas the financial sub-index was down 26.5%, showing that investor confidence in banks has been waning more the overall market.

To a certain extent, this is justified. Canadian banks are definitely way too exposed to oil & gas. For example, oil & gas loans make up 7.1% of **CIBC**‘s total loans portfolio — frighteningly high in light of the oil collapse.

Additionally, all of the Big Six banks are granting mortgage deferrals for up to six months in certain cases, which will take a massive bite out of Q1 and Q2 earnings.

However, for at least one big Canadian bank, there are signs of hope. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) recently made an announcement that shows surprising confidence. The announcement doesn’t mean that Q1 earnings won’t be bad — they almost certainly will be. However, it suggests that management expects the bank to make a full recovery.

No job losses in 2020

According to *ABL Advisor*, TD Bank CEO Bharat Masrani announced that there would be no job losses resulting from COVID-19 in 2020. The quoted statement was worded carefully, leaving open the possibility of layoffs for other reasons.

Nevertheless, it indicates that the bank is not expecting the COVID-19 impact to be too severe or long lasting. Masrani said that, where possible, he would try to find new roles for employees whose occupations are incompatible with social distancing. He also increased vacation time and added a $1,000 award for affected employees.

Why that's a good sign

TD Bank's announcement is good news because it indicates that the bank will be able to operate normally despite the pandemic.

Even before COVID-19, Canadian banks faced a number of problems. Hedge fund kingpin Steve Eisman notably shorted Canadian banks, citing poor Canadian consumer credit.

Since then, the banks have only added more headaches. In the age of COVID-19, mortgage deferrals and oil & gas loans will hit banks in the pocketbooks.

It looks like, at least for TD, the threats aren't existential. As a geographically diversified bank, about 33% of TD's earnings come from the United States, lessening TD's exposure to oil & gas loans and problematic mortgages.

Of course, the crisis in the U.S. is also leading to mortgage deferrals. However, *Advisor's Edge* reports that Americans have a lower ratio of debt to income than do Canadians: 130% versus 166%. This would indicate that mortgage deferral requests will be less frequent at TD's U.S. business.

Foolish takeaway

Over the years, TD Bank has proven itself able to weather the worst financial crises. Having survived the Great Depression, the dotcom Bubble, and the Great Recession, it's an incredibly resilient stock.

Its latest jobs announcement is further evidence that the company will weather yet another storm without serious damage.

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