TD Bank (TSX:TD) Stock Just Fell 19%: Is This Your Chance?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is known as a reliable bank stock. Since 1995, shares have risen by more than 1,000%. Plus, TD Bank investors have received a consistent dividend that often yields 4% or more.

The latest market crash has punished the entire market. TD Bank stock is no exception. In recent weeks, shares have fallen by nearly 20%, pushing the dividend yield up to 5.5%.

High-quality bank stocks like this rarely go on sale. The last time TD Bank shares were a bargain was during the 2008 financial crisis, more than a decade ago. Is the latest decline your chance to buy?

Is TD Bank ready?

Bank stocks are essentially leveraged bets on the economy.

When the economy does well, more businesses are started, and existing businesses become stronger. This ensures that banks can continue to make loans, and that those loans get paid back, plus interest.

When the economy does poorly, however, the ability for businesses and individuals to service their debt payments grows limited. In a sudden crisis like the coronavirus crash, the impact can be staggering. Well-financed borrowers become strapped for cash overnight.

Because banks only keep a small percentage of their assets as reserves, a relatively tiny impact on a loan book can have outsized effects on the health of the banking sector. This is exactly what caused the 2008 financial crisis. A confined segment of the market, U.S. subprime mortgages, had the ability to crush the entire global economy.

Might the coronavirus have the same impact on institutions like TD Bank? Jamie Dimon, the revered CEO of **JPMorgan Chase**, thinks it's a strong possibility.

"We don't know exactly what the future will hold — but at a minimum, we assume that it will include a bad recession combined with some kind of financial stress similar to the global financial crisis of 2008," he wrote in a shareholder letter published on April 6. "Our bank cannot be immune to the effects of this kind of stress."

JPMorgan is one of the better-financed banks in the industry, yet its stock has already fallen by 35% since the year began. TD Bank stock, meanwhile, has fallen by just 19%. The banks aren't perfect peers, but there's one major headwind that TD Bank is overly exposed to: the oil bear market.

This isn't over

At the start of 2020, oil was priced at US$60 per barrel. Today, it's below US$30 per barrel. It's possible that the majority of Canada's oil industry is producing losses at these levels.

The longer the oil downturn continues, the more likely it is that major projects will permanently exit the market. Thousands of Canadians may soon be added to the unemployment rolls, not to mention billions in lost GDP and government revenue. The impact on TD Bank stock could be severe.

"Energy financing is becoming slightly less important for the banks," notes the *Financial Post*, but "Toronto-Dominion Bank bucked that trend, with oil and gas loans representing a greater share of their corporate lending after acquiring energy books from foreign banks."

Since 2014, the bank's loans to pipeline, oil, and natural gas firms has doubled. All Canadian banks are exposed to the oil crash, but this company is *particularly* vulnerable. Investors are looking past the coronavirus pandemic, but even if that clears quickly, the oil bear market will be taking hold, sending shockwaves through the rest of Canada's economy.

At this point, a 19% correction is nowhere near reflective of the troubles to come. Consumer and business spending could be impacted through 2020 and beyond. Oil companies, meanwhile, are already at the end of their rope. There are plenty of cheap stocks worth buying right now, but I'm staying away from Canadian banks like TD Bank.

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