TFSA Pension: Is This the Right Time to Buy TD (TSX:TD) Stock?

Description

The share price of **TD** (TSX:TD)(NYSE:TD) plunged in the first few weeks of the pandemic crisis.

A rebound in the broader market is helping bank stocks recover from the March low, but investors are wondering if this is the best time to add the financials to their portfolios.

Let's take a look at the current situation to see if TD deserves to be on your TFSA buy list.

Economic outlook

According to the latest Statistics Canada report, Canadian unemployment hit 13% in April. Companies continue to reduce headcounts, so the May numbers are expected to be worse. More than 7.5 million people have applied for the Canada Emergency Response Benefit. That's about a third of the country's population between the ages of 15 and 64.

Requests have also soared for relief on debt payments. By the end of March, the banks said more than 10% of mortgage holders had received deferrals for up to six months.

In addition, businesses forced to close due to lockdowns are struggling to cover rent or mortgage payments. The provinces are starting to slowly re-open the economy, but nobody knows how many small businesses that closed will be able to survive under new regulations.

Restaurants, for example, typically pack tables close together. Now they need to keep guests socially distanced. This will impact revenue.

Many analysts are of the opinion the market is too optimistic about the speed of the recovery. Investors might not fully understand the size and scope of the economic damage. In the United States, the treasury secretary recently warned that unemployment could hit 25% before things start to improve.

With that though in mind, there is a risk the banks could retest the March lows in the coming months.

Should you buy TD stock?

TD has large operations in both Canada and the United States. The company finished fiscal Q1 2020 with $293 billion in Canadian mortgages on the books. Insured loans represent 30% of the portfolio.

In the event the unemployment situation gets worse and drags on into 2021, the housing market could see a flood of defaults and a wave of listings. A plunge in property prices would be negative for TD and its peers.

That said, things would have to get really bad before TD sees material losses on the properties. The loan-to-value ratio on the uninsured portion of the portfolio is just 54%. Recent estimates put the potential drop in home prices as high as 20% over the next two years.

TD entered the crisis with a strong capital position and raised $3 billion through a bond issue in April. The bank recently said it anticipates $1.1 billion in provisions for credit losses (PCLs) for the U.S. business when it reports fiscal Q2 results at the end of May. Analysts expect all the Canadian banks to boost PCLs when earnings come out. It will be interesting to see how much gets set aside for TD's Canadian operations.

The stock trades near $58 per share compared to $76 before the crash. TD bottomed out below $50 in March. At the current price, investors can pick up a 5.5% yield.

We could see another plunge on worse-than-anticipated guidance when the Q2 number come out, so I wouldn't back up the truck. However, a better-than-expected outlook could send the stock soaring.

Regardless of what happens in the near term, the dividend should be safe.

It takes courage to invest during a crisis, but investors with a buy-and-hold strategy might want to start nibbling on TD. Any move back toward the March low should be viewed as an opportunity to add to the position. Five years from now, TD's share price should be higher, and you get paid well to ride out the downturn.

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