Buy Alert: This High-Quality Bank Stock Is Still Down 30%

Description

As the old adage goes, you want to buy low and sell high. Or, as Warren Buffett prefers, you want to buy low and then never sell, letting the investment compound on a tax advantaged basis for many decades. Many top investors agree — the worst thing you can do with a winning stock is sell.

Unfortunately, the buying low part is something many investors have problems with. It’s hard to tell the difference between temporary problems and permanent issues. Short-term thinking dominates the stock market, and even long-term investors aren’t immune.

Let’s take a closer look at one particularly beaten-up stock, a bank stock that has declined some 30% in just a few short months. Here’s why **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) will not only survive this crisis, but why it’ll thrive.

The skinny

Toronto-Dominion Bank is Canada’s second-largest financial institution by market cap. The company holds top market shares in almost every important banking category in Canada, ranging from deposits to mortgages to credit cards. It also has strong wealth management and capital markets divisions.

The company was one of the first Canadian banks to expand into the United States, a move that has paid off handsomely over the years. U.S. operations now have more than 1,200 branches, deposits of US$372 billion and responsible for nearly 40% of total earnings.

There’s further potential to expand in the United States as well. After all, there are more than 5,400 banks in the nation. TD is already strong in certain regions, like the northeast and southeast portions of the country, leaving a great deal of untapped potential.

Like every other major Canadian bank, TD is investing heavily in technology. This should have twolong-term advantages. First, smart technology will help with both customer acquisition and loyalty,giving large banks a continued advantage over smaller ones who can't afford similar technology. Andsecond, it will help make staff more efficient, further increasing profitability.

Before COVID-19 hit the economy and threw everything into a state of chaos, TD told investors it expects to grow the bottom line by 7-10% a year, growth driven by increases in mortgages, wealth management, credit cards, and expansion into new business lines. The company will also use prudent expense management to help boost the bottom line.

Yes, TD's short-term earnings will be impacted by the rough economy. But the company has been preparing for this for years now, and has the balance sheet strength to weather this storm. The last thing TD wants is a repeat of 2008-09 when investors questioned its very survival.

The opportunity

TD Bank stock hasn't been this cheap in a long time.

Let's first look at the trailing P/E ratio, which stands at just 8.4x. I'm the first to admit 2020 earnings will be lower than 2019's bottom line, but eventually the bottom line will recover. In fact, analysts project 2021's earnings will be $6.31 per share. Trailing earnings are currently $6.60 per share, which means that TD should be largely recovered by next year.

Shares are also cheap on a price-to-book value basis. TD shares trade at just 1.2 times book value. The last time TD Bank stock was that cheap was way back in 2009.

The company is also cheap from a dividend yield perspective. The current yield is a very impressive 5.8%. Before the COVID-19 crisis, the yield was closer to 4%. Again, the last time TD offered such an attractive yield was back in 2009.

Needless to say, 2009 was a glorious buying opportunity. Including reinvested dividends, $10,000 put into TD stock back in May, 2009 — which wasn't even the bottom — is now worth more than $33,000. That's an annual return of more than 11% per year.

The bottom line on this undervalued bank stock

It isn't very often investors get the opportunity to buy one of the best names in the sector for a discounted price, but that's exactly the situation that's happening today.

TD Bank stock should prove to be a fantastic buy a few years from now. It's just that simple.

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