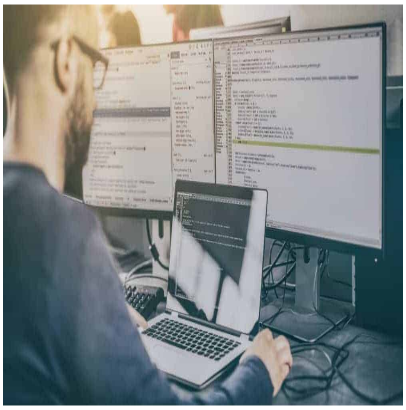

Should You Buy TD (TSX:TD) Stock Now?

Description

The big Canadian banks just reported results for fiscal Q2 2020 that indicate how challenging the pandemic has been in the past few months.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see if it deserves to be on your buy list today.

TD

TD reported adjusted earnings of $1.6 billion for the three months ended April 30. Adjusted earnings per share came in at $0.85. Revenue was actually up compared to the same period last year. However, TD set aside a significant amount of money to cover potential loan defaults.

In total, TD recorded $3.2 billion in provisions for credit losses (PCLs) in the quarter. This is the largest amount among the big Canadian banks. The PCL number does not mean TD actually lost this money; it simply indicates the loans TD considers to be at risk.

During the quarter, TD provided payment deferrals on $62 billion in loan balances. The payment holidays last for up to six months. Ideally, the economy will be back on track by the fall, and most clients will be able to meet their payment obligations.

TD had a strong capital position coming into the crisis, and that remains the case. The CET1 ratio is 11% compared to 11.7% at the end of fiscal Q1 2020.

The bank is putting share buybacks and dividend hikes on pause, but the existing dividend remains in place. TD has one of the best dividend-growth track records in the TSX Index over the past two decades.

The stock traded as low as $49 per share in March. A jump this week took it as high as $63. Investors can pick TD up for close to $60.50 at the time of writing. This provides a yield of better than 5%.

Threats

The Canadian real estate portfolio totalled $297 billion at the end of the second quarter. Once deferrals expire, pundits wonder if house prices will crash amid a wave of defaults.

As long as jobs come back at a steady pace, the situation should be in line with provisions. In the event unemployment stays at the current level or rises through the end of the year, TD and its peers could face larger-than-expected defaults.

TD’s uninsured property loans represent 71% of the portfolio. The loan-to-value (LTV) rate on that segment is 54%. In theory, this means the housing market would have to plunge significantly before TD would be forced to sell foreclosed properties at lower average prices than the value of the loans provided against them. That said, the property owners most likely to default will be the ones with the highest LTVs.

The banks will do everything they can to avoid taking the keys back from homeowners. Defaults will occur, given the scope of the economic crisis, but the number will hopefully be small.

Canada Mortgage and Housing Corporation (CMHC), the government agency that insures mortgages, predicts an average drop in house prices of 9-18% due to the pandemic. If that turns out to be accurate, TD and its peers should get through the downturn in decent shape.

Is TD a buy now?

Investors with a buy-and-hold strategy might want to start nibbling on the stock. The PCL number is large, but TD is probably taking a cautious approach, and the result could be much smaller losses.

The Bank of Canada recently said the economy is trending along a best-case scenario for the recession. Assuming that continues to be the situation and the recovery occurs quickly, TD appears cheap today.

The dividend should be safe and you get paid well to ride out the recession. The stock traded at $75 in February, so there is decent upside potential over the next couple of years as the economy recovers.

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