TD Bank’s (TSX:TD) Q2 2020 Earnings Weren’t That Bad

Description

On Thursday, **TD Bank’s** (TSX:TD)(NYSE:TD) Q2 2020 earnings were released. These results included the three-month period ending on April 30. This means that these results reveal the first glimpse of the impact that COVID-19 has had on TD. The results were not as bad as many feared.

Provisions for credit losses (PCLs) were not as bad as they could have been

The headline story this earnings season for Canadian banks has been provisions for credit losses (PCLs). PCLs are a measure of the value of loans that the bank has determined may be at risk. The higher the PCLs, the more problematic it is for the bank.

Additionally, from an accounting perspective, PCLs reduce earnings and therefore, bank earnings took a significant hit across the board this quarter as a result of rising PCLs at all Canadian banks.

At TD, PCLs rose from just over $900 million in Q1 to just over $3.2 billion in Q2. This represents over a 250% increase and makes TD’s PCLs higher than rival RBC’s, who reported just over $2.8 billion in PCLs in its Q2 earnings report. While the headline number is large, this certainly did not completely derail TD’s business.

Canadian Retail PCLs were approximately $1.2 billion, and U.S. Retail PCLs were just over US$800 million. This demonstrates a relatively even distribution of PCLs between Canada and the United States. These numbers are certainly manageable, although it will be important to continue to monitor these figures for further deterioration.

Net income was still strong

Despite all of the chaos happening in the world during this quarter, TD still made over $1.5 billion in net income on just over $10.5 billion of revenue during Q2. A large part of this came from the Canadian

Retail division, with almost $1.2 billion in profits coming from that division alone.

While TD has focused heavily on the United States as its primary growth driver in recent years, these results demonstrate that Canadian Retail is still the division that provides the stability at the core of TD.

These net income figures are truly remarkable and demonstrate the resilience of the business model that makes TD a wise pick even in uncertain times.

Dividends remain on track

TD also declared a $0.79 quarterly dividend, which indicates that the dividend has not been cut, and even remains on the same trajectory as it was pre-COVID-19. This is because TD just increased the dividend earlier this year. Therefore, TD has another half-year before it must confront the decision of whether or not to raise the dividend.

The dividend remains (barely) fully covered for the time being, with the payout ratio just over 98% for Q2. TD should be able to continue to cover the current dividend if PCLs do not rise further.

Takeaway

TD's earnings were not as bad as many had feared. PCLs were within the range of expectations and net income is still sufficient to cover the dividend.

TD is therefore a safe dividend stock to ride out the current market turbulence with and should provide some safety for income-oriented investors.

CATEGORY

1. Investing

POST TAG

1. TD Bank

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. TD Bank

Date
2025/07/02
Date Created
2020/05/30
Author
kwalton