TD Bank (TSX:TD) Stock: Buy, Sell, or Hold?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has staged an impressive recovery since falling in the March stock market crash. After falling as low as $49, it has climbed to $62 — a 26% gain in just a few months. While last week was a loser for TD, the long-term momentum is looking positive.

For investors, that raises a question: Is it time to take a position? With provinces and states starting to reopen, it seems likely that TD's business will recover after the initial hit it took from COVID-19 lockdowns. However, the company still faces a number of risk factors related to consumer debt, mortgages, and oil/gas loans.

In this article, I'll be exploring the cases for buying, selling, and holding TD Bank stock, so you can understand the risks and potential payoffs of each position.

The case for buying

A case for buying TD can be built on two foundations: price and yield. After the beating TD took in the COVID-19 market crash, it's cheaper than it was earlier in the year. In absolute terms, the price is down about 15% from where it was on February 20. Relative to earnings, the stock is also slightly cheaper, with a 10.9 P/E ratio as of this writing, compared to 12 earlier in the year.

Of course, TD's earnings were way down in Q1, so the P/E ratio isn't down as much as the stock price. But the stock is still cheaper than before, by either metric. The dividend yield is higher, too: despite TD's iffy Q1 results, the company maintained its dividend, resulting in a 5% yield.

The case for selling

The case for selling TD Bank rests on the innumerable risk factors the company is facing. As of right now, TD is dealing with sky-high consumer debt, unemployed homeowners, and questionable oil and gas loans. All of these factors could lead to defaults, which is why TD increased its PCLs by 250% in the first quarter. That increase in PCLs was the main reason why TD's earnings fell 52% in Q2. The company's revenue actually rose by $300 million year over year, but covering expected future losses sent net income lower.

The case for holding

If you already own TD Bank shares, you might be wondering whether you should hold them.

The case for this position is based on a combination of all the factors listed above. While TD's stock is historically cheap, with a high dividend yield, the company is facing more risk factors than it did earlier in the year. Taking into account the fact that the COVID-19 headwinds are likely to continue into Q3, it might be best to sit on the stock without buying more. If you were able to buy TD in March when it was near $50, the stock is definitely worth holding onto. Initiating a new position right now is probably not as wise.

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