



Why TD Bank (TSX:TD) Stock Just Plunged 5%

Description

TD Bank ([TSX:TD](#))([NYSE:TD](#)) led the banks' latest downward charge, as shares have pulled back over 5% in the last week. With the perfect storm of headwinds that have been plaguing Canada's top financial institutions, it seems as though it's been a while since we've heard TD Bank being referred to as a premier Canadian bank with its sought-after exposure to the U.S. market.

Amid this horrific pandemic, the tides have turned, and banks with greater U.S. exposure have been put in the penalty box. The U.S. has been hit hard by the coronavirus crisis. With former U.S. vice president Joe Biden, who could roll back Trump's corporate tax cuts in a Democratic victory, there's no question that the U.S. banks and Canadian banks with U.S. exposure could stand to take yet another hit to the chin.

TD Bank stock: Close to the cheapest it's been in a while

Interest rates are slated to stay at the floor for longer, which does not bode well for any bank. With the latest round of analyst downgrades, TD Bank no longer seems worthy of the premium multiple it's held in the past, and its business is anything but premier.

Today, shares of TD are down 25% from all-time highs. Provisions have been weighing on the bottom line, and the stock has all but shed its premium multiple relative to its Big Six peers. At the time of writing, TD stock trades at 1.29 times book value and is close to closing in on the 1.23 times book multiple of the perennial underperformer **CIBC**, a Canadian-centric bank that has a history of getting caught with its pants down during crises and economic downturns.

In a prior piece, I went into detail over recent downgrades on TD Bank stock that have exacerbated the name's latest decline. While TD faces greater U.S. election risk and stands to take a bigger hit to the chin in an era of near-zero interest rates, I think the recent pessimism surrounding the name is exaggerated given shares are already ridiculously cheap.

Would it be nice if TD Bank had a larger capital markets business to help do some of the heavier lifting amid this pandemic-plagued low-rate environment? Sure, but I think overly bearish analysts are turning

their back to TD Bank's impeccable track record of managing risks without compromising on the return front.

The Foolish takeaway on TD Bank stock

I never thought that TD Bank would trade at the same price-to-book (P/B) multiple as the domestically overexposed CIBC, but here we are. While investors are turned off by U.S. exposure today, I think such exposure will be sought after once this pandemic is long gone.

TD Bank is still a premier bank that I believe will regain its premium multiple on the back of the next bull market and would encourage contrarian income investors to load up on shares while TD stock's dividend yield is north of the 5.2% mark. TD stock is likely to be very choppy over the next 18 months, so be ready to average down if you're given a chance.

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Author

joefrenette

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