



TD Bank (TSX:TD) Stock: Should You Buy Before Q4 Earnings?

Description

Canadian banks, including **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), have had a rough time this year. But looking at TD Bank stock, we couldn't really tell. It's down only 8% from pre-pandemic levels. Its dividend has remained unchanged. And it yields a generous 4.52%

But does this really mean that everything is fine? Can we really still rely on TD Bank stock as this [safe and secure pillar as we have in the past](#)?

TD will report its fourth-quarter results on Thursday, December 3. There are many risks that leave me on the sidelines. For example, provisions for credit losses (PCLs) have risen dramatically in 2020. And with [the second wave of COVID-19 escalating](#), there will be more. There are many things that I will look at and listen for closely in TD Bank's earnings results and call.

Here are the risks as I see them.

TD Bank is battling rising PCLs

The pandemic lockdowns have shattered businesses. They have left the economy hanging on for dear life, relying on government aid. In turn, this has meant skyrocketing PCLs for all banks. PCLs are simply an estimation of credit losses that a bank might experience due to credit risk. So, as credit risk is clearly rising across the board, so are PCLs. TD Bank's PCLs are up 200% so far this year to more than \$6 billion.

But TD still has a solid financial footing. It is well capitalized and diversified. But how long can this go on before it falters? The second wave of COVID-19 is accelerating. More lockdowns are coming. It could be worse than what TD has been expecting. It sure has been worse than what many of us were expecting. This would mean higher, not lower, PCLs.

One positive note is that PCLs were settling down in the latest quarter. TD Bank took provisions in Q3 that were 32% lower compared to Q2. It was a glimmer of hope, but just a glimmer. Q4 earnings will likely report a rising trend again.

Watch for signs of dividend cuts: This would sink TD Bank stock

TD's dividend history is an exemplary one. Since 2000, dividends have grown at an annualized rate of approximately 10%. Also, the bank has consistently remained within its 40-50% targeted payout range.

But these days are different. TD's latest payout ratio was 59%, as the bank struggles with the financial fallout of the pandemic. For example, adjusted net income has fallen 27% so far in 2020. Also, PCLs have increased a shocking 200%. These numbers are huge. They foreshadow a very difficult 2021. And now COVID-19's second wave is picking up steam. It will leave behind more financial troubles.

The safe, reliable, and growing dividend is a big reason investors own TD Bank stock. The events of 2020 have placed this "safe" dividend into question. This is my view. I don't hear too much about it though. TD Bank stock has its reputation, and a reputation can be a difficult thing to change. And while this a good reputation, it can cause problems for investors. If the stock doesn't factor this risk in, any changes to the dividend would cause it to plummet overnight.

Management's 2021 outlook is key

I will be tuned in to TD Bank's earnings call on Thursday. An important part will be management's outlook. The world today is so uncertain and quickly changing. Canadian banks will survive in the long run. We just have to successfully navigate the short run in the meantime.

Motley Fool: The bottom line

For as long as many of us can remember, TD Bank stock has been the reliable bank stock. But times are changing. This once-in-a-lifetime COVID-19 pandemic crisis has been a big blow. It has wiped out jobs and dramatically slowed the economy. TD Bank stock is trading pretty close to pre-pandemic levels. But even it can't come out of this unscathed. I would wait until after its Q4 earnings release to buy TD Bank stock on weakness. It is coming.

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