Toronto-Dominion Bank (TSX:TD) Shuts Down 82 Branches: Stock Soars

Description

Recently, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) announced that it would be shutting down 82 branches in the United States. Around the same time, its stock surged forward to an all-time high of $78.5. On the surface, that looks strange. When a company starts closing locations, that usually indicates that it's in decline or even losing money. However, it appears that TD's branch closure isn't an example of this. The bank just recently posted its best quarter since the COVID-19 pandemic began and got a $2.5 billion windfall from **Charles Schwab**. Clearly, there's something more to this story. In this article, I'll explore what's going on with TD's branch closure — and why it's very *good* news for investors.

Why TD is shutting down branches

The main reason TD is shutting down U.S. branches is because it wants to move to a more online-focused business model. As more and more banking services go digital, the need for physical branches is reduced. Many banking services can today be delivered entirely online. For example, insurance and cash transfers. In fact, even cheque cashing — previously the most stubborn bank service requiring a physical presence — can now be done via mobile apps.

In this environment, a lot of money can be saved by eliminating branches. By doing so, you get rid of overhead costs (rent, machinery, etc.) while retaining all the services you offered before. So, doing so is a no-brainer. Of course, it depends on the nature of the area you're operating in. If you cut out branches in an area with an older-than-average population, you might lose some customers. But for the most part, branchless banking is quite viable in 2021.

This is actually a positive for investors

TD's decision to axe 82 branches is a positive for investors. On the surface, it might look like a cost-cutting move to cope with tough times. But, in fact, it's a bold leap forward into the future of banking. TD Bank's most recent quarter was not a bad one. In it EPS grew 10% year over year, and Charles

Schwab's earnings contribution beat TD Ameritrade's in the prior year quarter. U.S. retail income was down 16% due to low interest rates in the United States. That shouldn't be a big problem for TD in the U.S., as long as the Charles Schwab investment does well enough to offset it. Additionally, the past month has witnessed a pronounced increase in the 10 year treasury yield — perhaps pointing to higher interest rates in the future.

Foolish takeaway

Lately, we've seen TD Bank stock setting new highs and flirting with $80. It's not hard to see why. With earnings up 10%, the bank appears to be walking off its COVID-19 damage. At the same time, Charles Schwab is contributing positive growth to TD's earnings in the U.S.

On top of that, the 10-year treasury yield has nearly tripled since its March 2020 low of 0.5%. Overall, this is looking like a good time to be long banks. And TD is one of the most promising of the Big Six.

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