



TD Bank (TSX:TD): Is a Huge Acquisition About to Happen?

Description

Bank deals might come soon, which would mean Canada's second-largest bank can fortify its retail operations in the United States. Chief Executive Officer Bharat Masrani, **Toronto-Dominion Bank's** ([TSX:TD](#))([NYSE:TD](#)) CEO, said the bank is open to major mergers and acquisitions in America.

Masrani said on March 31, 2021, "If we can find some opportunity that fits all our criteria, we will look at it very seriously, and our capital gives us that flexibility." TD was [brilliantly proactive](#) at the onset of the 2020 global pandemic. Management raised its provision for credit losses (PCL) to significant levels in case loan portfolios' status deteriorated.

Cash stockpile

Both Canada and the U.S. introduced massive stimulus programs to prevent a wave of consumer defaults. The catastrophe didn't happen. Masrani said, "PCLs declined significantly, reflecting an [improving economic outlook](#), as well as the impact of ongoing fiscal and monetary support for the economy and the sizable addition to our allowance for credit losses last year."

TD now has \$12 billion excess capital, which is over the typical 11% common equity tier one ratio target of most banks. As a result, the \$119.88 billion bank has more than adequate financial resources to pursue significant acquisitions. Last year, there were speculations that TD would seize the moment and use the pandemic's disruption to strike some deals.

However, the bank acquired **Well Fargo's** Canadian direct equipment finance business — a relatively small transaction. As of October 2020, the bank had a stake around 13.5% in **Charles Schwab** after selling its TD Ameritrade holding to it. Management advertises TD as America's most convenient bank.

Lower PCL and higher revenue

For Q1 2021 (quarter ended January 31, 2021), total PCL went down 66% to \$313 million. TD realized a \$153 million recovery on provisions for performing loans in its consumer lending portfolios in the U.S.

due to a better economic outlook. Likewise, TD's earnings during the quarter increased 10% year over year.

TD was the only company that reported growth in both top and bottom lines during the 2008 financial crisis. In the 2020 health crisis, the blue-chip company took little time to recover from the COVID shock. Profit in Q4 fiscal 2020 was higher compared with pre-pandemic times. Also, there was growth acceleration in Q1 fiscal 2021.

Masrani said that TD doesn't make bad loans during good times in order to be able to make good loans during bad times. Expect TD's capital, liquidity, and funding positions to remain strong in the months and years ahead. It will stand tall regardless of the headwinds.

Stock performance

Investors should find it reassuring that TD shares are up by a resounding 17.3% year to date. Note, too, that the banking giant has a dividend track record (164 years long) of more than a century. At the current share price of \$65.72 per share, the dividend yield is 3.81% dividend.

If you're building a nest egg for retirement, a \$200,000 investment today, assuming the yield remains constant, will compound to \$509,342.33 in 25 years. Toronto-Dominion Bank is one of the buy-and-hold TSX stocks. Invest now in this top-notch income stock and hold it forever.

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