



TD Bank (TSX:TD) Expects a \$223 Million Payday From Schwab

Description

The Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) has been doing great so far this year. With earnings up 10% in its most recent quarter, it is beginning to walk off the effects of the COVID-19 pandemic. Early in 2020, TD took a big hit, when COVID-19 increased the risk of its loans. The pandemic put many people out of work, forcing many businesses to close. As a result, TD was less convinced that its loans would be repaid, and increased its provisions for credit losses (PCL). Later, it was able to reverse its loan loss provisions, and returned to solid growth.

One factor that contributed to TD Bank's growth in 2021 and the second half of 2020 was its sale of **TD Ameritrade** to **Charles Schwab** ([NYSE:SCHW](#)). As a result of the deal, TD realized a massive one-time \$2.5 billion gain. Later, it got a solid \$209 million in first quarter earnings from its Charles Schwab stake, which help drive a first quarter earnings beat.

Which brings us to today. TD Bank is expected to release its second-quarter earnings next month. And all eyes are on the Schwab stake. In order to be worth it to TD, Charles Schwab is going to have to deliver a lot of value. The good news? It's looking like it will.

\$223 million from the Charles Schwab deal

Last week, TD Bank released a press release announcing that it expected \$223 million in net earnings in its [Charles Schwab stake](#). That's not direct cash, but earnings in the stake itself (called "equity in net income"). This is a very impressive result. In the same quarter of 2020, TD Ameritrade contributed \$234 million to TD Bank. On the surface it looks like Schwab is generating a little less value. But looks can be deceiving.

TD's net earnings from Schwab include acquisition costs that haven't been fully absorbed yet. Take those out of the equation, and Schwab contributed \$272 million — much better than what TD Ameritrade delivered a year prior. Based on this information, it's looking like TD made the right call by selling Ameritrade to Schwab.

TD Ameritrade's historical earnings

Through the period that TD owned it, TD Ameritrade's earnings varied widely. In some recent quarters it earned as little as \$190 million, in others as much as \$309 million. Brokerage earnings are influenced by trading volume, which ebbs and flows over time, leading to a lot of variance in earnings. However, the \$233 million in quarterly earnings TD is getting from Schwab is so far stacking up well compared to TD Ameritrade.

Foolish takeaway

Over the years, TD Bank has built up a reputation as the “most American of Canadian banks.” As the largest shareholder in America's largest brokerage, TD fits that description more than ever before. TD is making good money off its 13.5% stake in Charles Schwab, and the profits may grow from here on. And with \$30 billion [ready to deploy in a U.S.-based acquisition](#), the company may have more Charles Schwabs on its balance sheet in the future.

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