



TD Bank (TSX:TD) Could Make a Massive Acquisition in 2021

Description

TD Bank ([TSX:TD](#))([NYSE:TD](#)) is one of my favourite Canadian banks to buy and hold forever, not only because TD is geographically diversified with a high quality of retail earnings (which tend to be less volatile), but because of the incredible managers running the show. Led by CEO Bharat Masrani, TD is one of the better risk mitigators out there. With exceptional stewards running the show, I do think that any acquisitions TD makes could unlock massive long-term value for shareholders.

TD Bank's managers are best in class

When times are good and credit is easy, it's so tempting for a bank to climb to the very top rung of the ladder to grab the fruit way at the top of the tree. Doing so runs the risk of a potential injury-inducing fall, though. When credit tightens and pressures mount, the winds pick up in the financial industry and the risk-taking banks that extended themselves too high up on the ladder take an epic fall.

TD isn't such a bank. It's all about growing its top- and bottom-line without putting itself at risk in these high-impact, low-probability scenarios. The recent Archegos Capital Management fiasco delivered a left hook right on the chin of several banks with less-than-stellar risk management. Credit Suisse's Archegos hit reportedly caused US\$5.5 billion in losses. Other banks took substantial hits as well. TD Bank wasn't one of them, and TD top boss Masrani was proud to say his bank had no direct exposure to the fall of Archegos.

TD Bank could make a massive splash in the U.S.

With more than enough cash and credit, Mr. Masrani and company are ready to go bargain hunting ahead of what could be an epic decade for the big banks. As you may know, the business of M&A can be a risky one. Oftentimes, if the price paid is too high, the shareholder value of the acquirer could be destroyed. In an era of increasing speculation, big-ticket mergers, and bidding wars, firms feel compelled to make deals for the sake of making deals, with little regard for prices paid.

Railway behemoths on this side of the border are [battling](#) for one of the biggest rail acquisition targets

in years. The sticker price is likely to exceed US\$33 billion if CP looks to sweeten its offer. Such rivalries and bidding wars are typically bad news for shareholders of the acquirer. As such, a firm needs to know when to walk away because sometimes, even the winner of an auction can end up being the loser if the bid-up price is way too high.

Given TD Bank is one of the most prudent risk managers out there, you can be sure that only acquisitions that make sense will be made. That means low-priced acquisitions with a chance of unlocking shareholder value and integration risks that won't overwhelm.

Undoubtedly, Mr. Masrani has made it clear that he's interested in a major acquisition at this juncture, likely in the realm of U.S. retail, a segment of banking where TD shines brightest. I'd imagine that TD has been busy going on the hunt for deals south of the border. With the favourable environment for financials in the 2020s, any deals that get Mr. Masrani's stamp of approval should also be getting the thumbs up from TD Bank shareholders.

Bottom line

Mr. Masrani makes a strong case for why he may be one of the best banking CEOs in Canada. And with shares still modestly priced at \$84 and change, I'd encourage investors to accumulate ahead of what could be a major U.S. banking deal that could pay [massive dividends](#) through the roaring 2020s.

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