# TD Bank: My Top Canadian Stock to Buy in July

## Description

Shares of Canadian banking behemoth **TD Bank** (TSX:TD)(NYSE:TD) have historically traded at a nice premium to its peer group in the Big Six. This all changed when the COVID-19 crisis struck shortly after some weakness in Canadian credit.

Suddenly, U.S. banking exposure went from sought after to no longer being worthy of a premium price tag. With the Canadian bank stocks now well above and beyond their early 2020 highs, TD Bank stock now looks to be the "best bank for your buck" with a price-to-earnings (P/E) multiples that's no longer higher than most of its peers — it's well lower. What's behind the discount in TD Bank stock versus the broader Big Six basket? And is it warranted?

I'd argue the relative discount in shares of TD Bank is nothing more than a pricing mistake made by an inefficient Mr. Market. Little has changed with the fundamentals, which remain as solid as ever. At the time of writing, TD stock trades at 11.2 times trailing earnings and 1.77 times book value. That's a really low price of admission, even given the epic past-year rally.

## TD Bank stock sheds its premium for a discount

With TD at the intersection between near-term momentum and value, should investors look to add their way into a position just as shares are cooling off? The Big Six have flatlined this summer, but given modest valuations and the ever-improving macro backdrop, I'd argue that the next move is likely to be higher. And if I were to place a bet, I'd wager that TD Bank stock will lead the next upward charge. Why?

TD Bank is still worth the premium in my books. It not only has impressive growth prospects, but it's able to rake in a higher quality of earnings. Retail banking makes TD stock a steady ship. Combined with the prudence of management, it becomes more apparent that TD is a bank that ought to be head and shoulders above its peers from a valuation perspective. As to why the premium has been replaced with a discount is anybody's guess. Regardless, I don't think it's sustainable over the long term, especially once the bank's earnings start to really pick up traction.

## What are some other catalysts?

TD Bank is a high-quality bank whose less-volatile earnings stream may be discounted now. But in due time, I think TD stock will re-command its 13-14 P/E multiple. There are a few intermediate term catalysts that could spark such a re-valuation to the upside.

First, management has made it clear that it's hungry for an acquisition, likely in the U.S. market. Given the prudence of management, I think the next deal will be one where the potential for synergies heavily outweighs integration risks — making such a deal value creative for shareholders.

Second, TD Bank looks more sensitive to interest rates than many of its peers. With rates likely to rise over the next few years, the bank stock likely has the most room to run, as it looks to expand upon its margins. If you're at all jittery about the Bank of Canada and looming rate hikes, TD stock may very well be the ultimate hedge against high rates, which will surely leave a dent in other places in your portfolio.



**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

**Category**

1. Bank Stocks
2. Dividend Stocks

3. Investing

**Date**
2025/08/24
**Date Created**
2021/07/09
**Author**
joefrenette