Passive Income: This Canadian Dividend Stock Looks Extremely Undervalued

Description

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's largest bank. During COVID-19, the bank (TD) facilitated the rapid activation and support of government relief programs and worked with third-party suppliers to maintain critical functions and services throughout the disruption.

TD's operations, including the bank's technology infrastructure, network capacity, enterprise cloud capabilities, and remote access systems, have remained stable in the months since, providing ongoing support for work-from-home arrangements and a continued high level of online and mobile customer traffic.

Risk management during COVID-19

The bank has been monitoring credit risk as it continues to support customer borrowing needs, incorporating both the economic outlook, as well as the impact of government relief programs and regulatory measures. While the outlook remains uncertain, the bank's coverage levels appear appropriate following substantial additions to the allowance for performing loans in the second and third quarters.

The market risk continued to be well managed by TD in the fourth quarter against a backdrop of reduced volatility, and the bank's capital, liquidity, and funding positions remained strong. The bank continues to evaluate TD's preparedness for a more sustained period of stress, refine TD's downturn readiness procedures, and develop TD's medium and long-term plans, such as returning to the workplace options.

Impact on financial performance

TD expects the Canadian and United States (U.S.) economies to gradually recover in 2021, but the outlook remains uncertain. There is still some uncertainty about the efficacy, availability, distribution, and public acceptance of potential vaccines.

Phased re-openings of the economy and targeted use of lockdowns have led to an encouraging uptick in activity, but a fourth wave of infections appears to be forcing many jurisdictions to impose renewed restrictions, and the government programs that have supported households and businesses through the slowdown may be difficult to sustain.

Overall, TD expects the recovery in earnings to be uneven. TD’s fiscal 2021 earnings should be supported by lower provision for credit losses (PCL), reflecting the ongoing impact of bank and government relief and this year’s allowance build, as well as improving customer activity and continued expense discipline.

At the same time, TD expects further deposit margin compression given the low-interest-rate environment.

Well-positioned to manage risks

Further, the bank expects deposit volumes to moderate from last year’s levels, which were boosted by government stimulus, credit line draws and a high customer preference for liquidity, and capital markets activity should ease from last year’s record pace.

With TD’s strong capital and liquidity levels, substantial loan loss reserves, and diversified and customer-focused franchise, the bank is well-positioned to manage both upside and downside risks and to execute on growth opportunities.

Robust technology strategy

This year, TD also refreshed the bank’s technology strategy to accelerate efforts to improve the company’s infrastructure and power new experiences for TD customers. The strategy is rooted in TD’s principles of accessibility and agility and adopts an enterprise approach that is focused on outcomes. It also played a key role in the bank’s pandemic response.

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