1 Pandemic Reopening Play I'm Buying Hand Over Fist

Description

These days, pandemic reopening plays are all the rage. With COVID-19 cases trending down, and Canada approximately 78% vaccinated, it's looking like we're about to turn the corner on COVID-19.

It should come as no surprise then that value stocks are rising. In the past month, the value-heavy Dow has risen 2.55%, while the tech-heavy NASDAQ has risen only 1.78%. Value stocks famously got hit much harder by COVID-19 than tech stocks did. While banks, energy stocks, and retailers got smacked by all kinds of headwinds, tech companies made more money than ever from the pandemic era surge in online shopping.

Today, value stocks are making a recovery while tech stocks are looking overvalued. Accordingly, I'm betting big on value these days. In this article, I'll explore a long-time value stock I'd held all through the COVID-19 pandemic and will continue holding going forward.

TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a top Canadian bank stock that is a value play in every sense of the word. Trading at just 10.5 times GAAP earnings, 12 times adjusted earnings and 3.8 times sales, it's a true bargain. Generally, U.S. bank stocks are trading at 14-15 times earnings these days. TD is much cheaper. Yet increasingly, TD *is* a U.S. bank stock. Its retail banking division is already the ninth largest in the U.S., and TD is the biggest owner of U.S. mega-brokerage **Charles Schwab.** It looks like investors think that TD has limited growth potential because of the limits to growth in Canada, but, in fact, TD is a geographically diversified financial services company.

Despite its low multiples, TD has very strong growth for a bank. Its five-year CAGR growth in net income is 13.5%, while revenue growth over the same period is 6.5% per year — not exactly *stunning* growth but very adequate. And when the stock trades at 10 times earnings, those growth rates start to look very appealing.

Interest rates set to rise

One big thing TD has going for it right now is interest rates rising. The U.S. federal reserve has hinted that it will start “tapering” (i.e., raising rates) in 2022. Banks are among the few industries that benefit from higher rates. While most industries suffer from the higher cost of borrowing, banks earn higher profit margins on loans when rates rise.

TD benefits from the rumoured fed action in two ways:

1. Its U.S. retail bank directly benefits from the higher rates, earning higher profit margins on loans.
2. The Bank of Canada is likely to follow the fed’s lead on interest rates, leading to higher profit margins on TD’s Canadian loans.

Either way, TD has multiple ways to make money off higher interest rates.

Risk factors waning

A final reason I’m buying TD Bank hand over fist is the fact that its risk factors are waning. In 2020, TD’s risk shot up, thanks to (what seemed to be) very likely defaults on mortgages and oil/gas loans. Fortunately, those risks never materialized. Now, TD’s loan-loss reserves are at a normal level. So, profit growth will be much easier from here on.

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