Toronto-Dominion Bank Stock Looks Severely Undervalued After Unwarranted 9% Dip

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), or TD Bank for short, took such a huge hit to the chin on Tuesday's brutal trading session, finishing the day down just over 3%. Indeed, it was a tough day for the banks in general. Sadly, the Ukraine-Russia crisis doesn't look like it will end anytime soon. With sanctions being slapped on Russia, growing fears of an imminent recession seem to be taking hold.

default watermark

With such a flat U.S. yield curve, all signs point to a potential recession down the road. Indeed, the economy is still healing from the coronavirus recession suffered just under two years ago. With rampant inflation and surging oil prices, it certainly seems as though a more stagflationary environment is possible. It's ugly out there, and investors are looking to prepare for the worst, as last week's bounce-back looks to have run out of steam in a big way.

TD acquires First Horizon in historic deal

This week, TD Bank also pulled the trigger on a big banking deal that it's been hinting at for quite some time. The firm is poised to acquire First Horizon bank in a deal worth $13.4 billion, the biggest deal in TD's history. Undoubtedly, the price tag is high and is a likely reason why TD Bank stock was sagging considerably lower than some of its peers in the Canadian banking basket. Undoubtedly, U.S. banks have been under much pressure on Tuesday. Still, I think the selling is overdone, especially when it comes to the likes of TD Bank.

TD is a very high-quality manager that would never have made such a sizeable deal just to appease shareholders. If there's no value, TD's managers would have been fine with their backup plan: returning capital to investors. First Horizon was just too good of a bank to pounce on. The Tennessee bank bolsters TD's presence in the United States. While there is some risk that accompanies such deals, I do think that given the environment up ahead the deal will prove a worthy bargain.

Indeed, higher rates and robust economic growth are likely, even if many fear a recession. Even if there is a recession in 2022 or 2023, it may be a mild one, or a continuation of the pain experienced prior to the modest bounce-back from the COVID recession.

What about the valuation?

TD stock goes for 12.8 times trailing earnings, with a 3.6% dividend yield. That's pretty much in line with other Canadian banks. With First Horizon and a potential Goldilocks environment (higher rates, higher loan growth) on the horizon (forgive the pun), I think TD is a far greater bargain than its relatively depressed metrics suggest. That's why I'd pounce before TD and its peers continue knocking baseballs out of the park.

Will there be a bit of turbulence over the nearer term, as the Bank of Canada brings up yet another reason not to raise rates? Sure. But at the end of the day, it will be TD's fundamentals that will shine through. Over the next five years, it's really hard to get a risk/reward like that offered by TD. It's just a truly wonderful business and perhaps more wonderful following its purchase of First Horizon.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

default watermark

PARTNER-FEEDS

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

PP NOTIFY USER

1. jguest
2. joefrenette

Category

1. Bank Stocks
2. Investing

Date
2025/07/01
Date Created

2022/03/04

Author

joefrenette

default watermark

default watermark