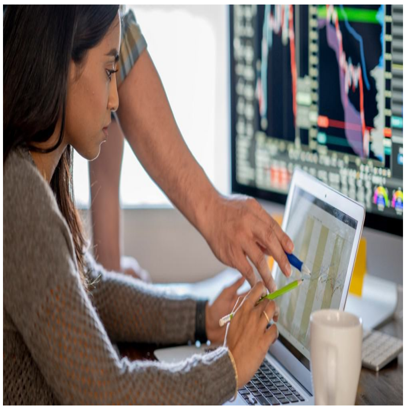

TD Bank’s $89 Billion Secret Makes the Stock a Buy Today

Description

Toronto-Dominion Bank (TSX:TD) has a $89 billion secret. An upcoming deal that most investors aren’t aware of could add up to $1 billion a year to the bank’s bottom line. TD has already received the go-ahead from investors to complete the deal. If it gets regulatory approval, then the deal could close this month.

In this article, I will explore TD Bank’s $89 billion deal and what it could mean for shareholders.

TD Bank’s $89 billion secret

TD Bank is in the process of buying out **First Horizon National** (NYSE:FHN) in a deal worth $13.4 billion. If you read the opening paragraph, you might have noted that $13.4 billion isn’t quite $89 billion — that’s where the secret comes into play.

Many people know that TD is about to acquire First Horizon. What isn’t so widely known is just how many assets it will bring to the table. At the time the deal was announced, the amount was $89 billion. Regulators require banks to keep large amounts of assets on their balance sheets to cover potential losses. With these new assets, TD will be able to issue a lot more loans. So, it could potentially earn much higher profits in the future.

How much value FHN could add to TD bank

First Horizon has the potential to add a lot of value to TD Bank. As mentioned, FHN’s assets were worth $89 billion when the TD takeover were announced. Since then, FHN has put out a few earnings releases, and it appears the bank’s assets have shrunk to $80 billion. That might sound like a bad thing, but on the flipside, the company’s earnings have risen.

In the third quarter, FHN's earnings per share came in at US$0.45, up 55% from the previous quarter and 10% from the same quarter a year before. Its net interest income (interest earnings minus interest costs) grew by 34.5% on a year-over-year basis. So, the quarter saw substantial growth.

When TD first announced its deal to buy FHN, it was criticized for overpaying. It offered $25 per share, which gave the deal a 14.5 price-to-earnings (P/E) ratio — higher than the average U.S. bank P/E ratio at the time. However, if FHN can keep up US$0.45 in earnings per share over the next three quarters, then the deal P/E ratio will shrink to 13.8, which is not that high. In other words, TD might not actually be paying as steep a price as it initially appeared to be paying.

Will the deal close?

The big question mark hanging over TD's First Horizon deal is whether the deal will actually close. TD needs a number of regulatory approvals before it can buy FHN, and it hasn't heard back from the regulators yet.

The deal has attracted some scrutiny. For example, U.S. Senator Elizabeth Warren called the deal bad for consumers and urged the U.S. Office of the Comptroller of the Currency (OCC) to block it. It is not known whether the OCC — an important U.S. financial regulator — actually took Warren's advice. If it did, then TD may have to let the FHN deal go.

Fortunately, as a high-quality banking stock with a high dividend yield, it is a pretty good value with or without FHN.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FHN (First Horizon National Corporation)
2. TSX:TD (The Toronto-Dominion Bank)

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