

Toronto-Dominion Bank (TD)

Company Overview: TD is a diversified financial services company providing customers with everyday banking, advising, debt and equity issuances, and trading. There are over 2300 TD branches in both Canada and the U.S., serving more than 23 million customers in North America. There are three main branches in TD: Canadian retail, US retail, and wholesale banking. They also have a subsidiary branch, TD Ameritrade, which trades under AMTD on the NYSE, offering mostly investing related services to customers.

Quantitative:

Ticker	Price (\$)	Avg. Volume (M)	Market Cap (\$B)	Beta 5y Monthly	P/E Ratio	Basic EPS (\$)	Loan Growth (%)
TD	73.05	4.33	134	0.9	12.09	6.04	5.50

DCF and Comparables:

Company (ticker)	Price (\$)	Market Cap (\$B)	Beta 5y Monthly	P/E Ratio	Basic EPS (\$)	Loan Growth (%)
Royal Bank of Canada (RY.TO)	102.74	148	0.93	12.12	8.48	6.30
Bank of Nova Scotia (BNS.TO)	70.62	86	1.17	10.6	6.67	9.40
Bank of Montreal (BMO.TO)	101.12	64	1	11.23	9.01	6.80
Canadian Imperial Bank of Commerce (CM.TO)	108.6	48	1.05	9.76	11.3	4.10

Year-to-Date (%)	3-Months (%)	52-Week High-Low (\$)	DCF Implied Price (\$)	Computed WACC Value (%)	Long-Term Growth Rate (%)	Comps Valuation (\$)	Average Valuation (\$)
7.93	11.4	80.05 - 65.56	80.34	12.10	2.27	63.01	71.73

Entry and Target Price Range:



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Future Risks:

- **Slowdown in the Canadian housing market:** Increasing interest rates and tightened mortgage lending policy led to national home sales down 4.4% YoY and national average sales price down 5.3% YoY.
- **Increased loan defaults:** Recent Q1 2019 increases to loan loss provision of 850M from 670M last quarter indicates higher than expected uncollected loans and loan payments.
- **Market volatility and declining equity prices:** Have an adverse impact on underwriting activity and average client fee-based assets. Market sensitive businesses such as wealth management may see lower revenue growth. As of 2019, money in equity markets moves towards more growth oriented sectors.
- **Flattening Yield Curve:** The narrowing spread puts pressure on Canadian banks' net interest income as their loan yields are largely priced off longer-term rates, while funding costs are generally tied to shorter-term yields.

Corporate Governance: Bharat Masrani, started his term as CEO of TD in 2014, having been with the company in other roles since 2003. Prior to 2014, he has served as vice-president and CEO positions for multiple international subsidiary branches of TD. Mr. Masrani is one of the five Directors currently designated by TD. He brings significant leadership skills and operational and financial services experience to the Board of Directors, having served in several leadership positions with TD Bank Group. He served as Member of Advisory Council of Federal Reserve Bank of Philadelphia, Inc. since 2011. In addition to this, TD has a board of 14 members, this is the smallest board relative to its competitors and has been decreased over recent years. The board also has a built-in corporate governance committee and an audit committee.

Competitive Advantages:

1. **Strong and established distribution network:** Over 23 million US and Canadian customers, over 2300 retail stores
2. **Dividend sustainability:** Strong dividend track record and recent dividend hike with steady future increases expected
3. **Strong capital position:** Places TD well to weather economic slowdown; total capital adequacy ratio (CAR) at 15.9% and Core Tier 1 CAR at 12% both well above the regulatory minimum of 11.5% and 8%. In addition to this, TD has the highest liquidity factor in relation to its peers, with \$334.6B of cash on hand.
4. **Very strong deposit franchise in Canada:** TD has the second highest shares of deposits among Canadian banks. An important advantage in a rising interest rate environment, given that wholesale funding, has become more expensive recently.
5. **Growth of assets:** TD is growing its total assets at a faster pace vs its competitors despite it being the largest Canadian bank
6. **Customer Service:** TD ranks second in customer satisfaction with a score of 787 behind RBC with a score of 788 according to the J.D. Power 2018 Canadian Retail Banking Satisfaction Study.

Investment Thesis: Toronto-Dominion Bank trades at a premium to its Canadian peers. However, we believe the premium is well justified, given TD's funding profile, U.S. exposure, better growth rates and high return on equity. TD has durable competitive advantages, quality earnings, strong income and dividend growth and is trading at a reasonable valuation. The possibility of further interest rate increases creates a strong operating environment for the bank. Long-term TD is one of the best banks for dividend investors due to its extremely stable and reliable Canadian business paired with impressive growth in the U.S. Although the bank already has over 2300 retail locations in North America, the majority of those are located in Canada and across the U.S. east coast. This means that vast regions of the U.S. do not have any TD retail locations, implying lots of room for further growth. In relation to our current sector holdings, we have observed a relatively low correlation of 49.83% with GS and 71.52% with REET. For these reasons, we recommend a buy-hold rating for TD at a potential entry price of \$71.00 with a target price \$80.00 and a stop loss at \$64.00.

Summary:

Entry Price (\$)	Target (\$)	Stop (\$)	Reward/Risk Ratio (%)
70.00 - 71.00	\$80.00	\$64.00	128.6% - 166.7%