



TD Canada Trust (TSX: TD)

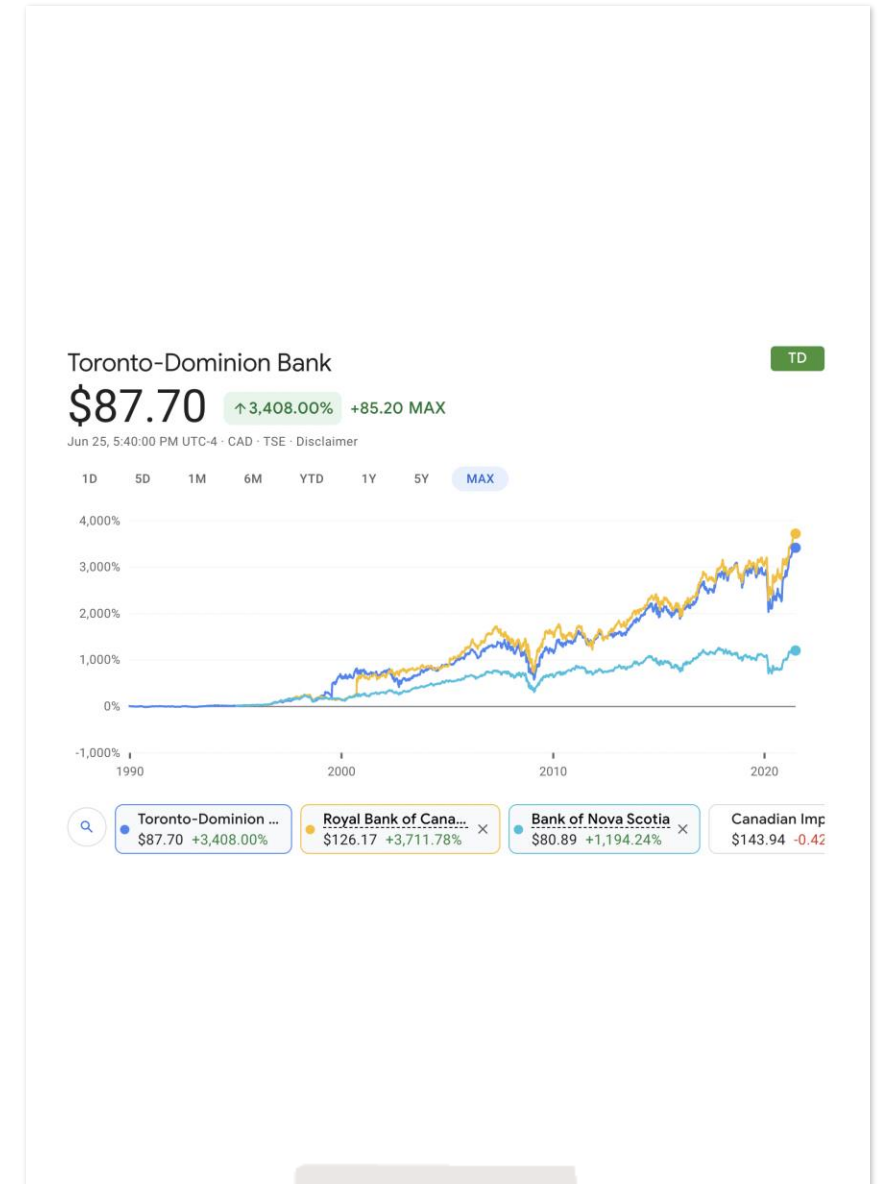


Recommendations

- **Recommendation:** We recommend buying TD Canada Trust (TSX: TD) because it is 10.6% undervalued.
 - **Investment Thesis:** The current stock price has failed to consider the low interest rates, COVID-19 recovery plan and a large cash flow.
 - **Catalysts:** With interest-hikes, a new CEO, and TD's financial flexibility, this stock is a buy and hold for the next 6-12 months.
 - **Valuation:** the company's intrinsic value is closer to \$97-100 / share from its current price at \$87/share
 - **Risks:** Declining revenues, unstable dividend track record, insider selling
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Company Background

- Industry: Financial Services
- LTM Financials: \$40.51 Billion Revenue, N/A EBITDA
- Market Cap: \$159.5 Billion
- LTM Multiples: -1.29 EV / Revenue; 0 EV / EBITDA
- Products:
 - Personal banking, credit cards and auto-finance
 - Small and business and commercial banking
 - Direct investing, advice-based wealth businesses, and asset management
 - Property, casualty, life, and health insurance



Investment Thesis

Low Interest Rates

COVID-19

Large Cash Flow

Catalysts

Rate-Hikes

- Federal Reserve recently announced rate-hikes

New Senior Management

- CEO is expected to retire come September

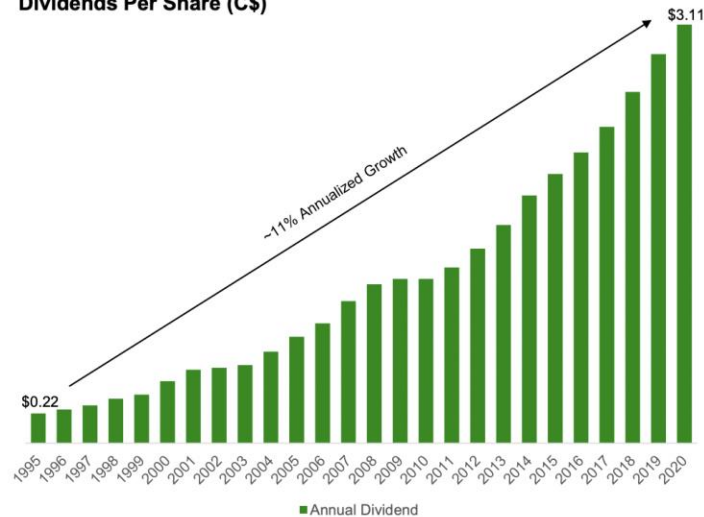
Financial Flexibility

- Potential M&A deals
- Large Dividend Payout

Strong, Consistent Dividend History



Dividends Per Share (C\$)

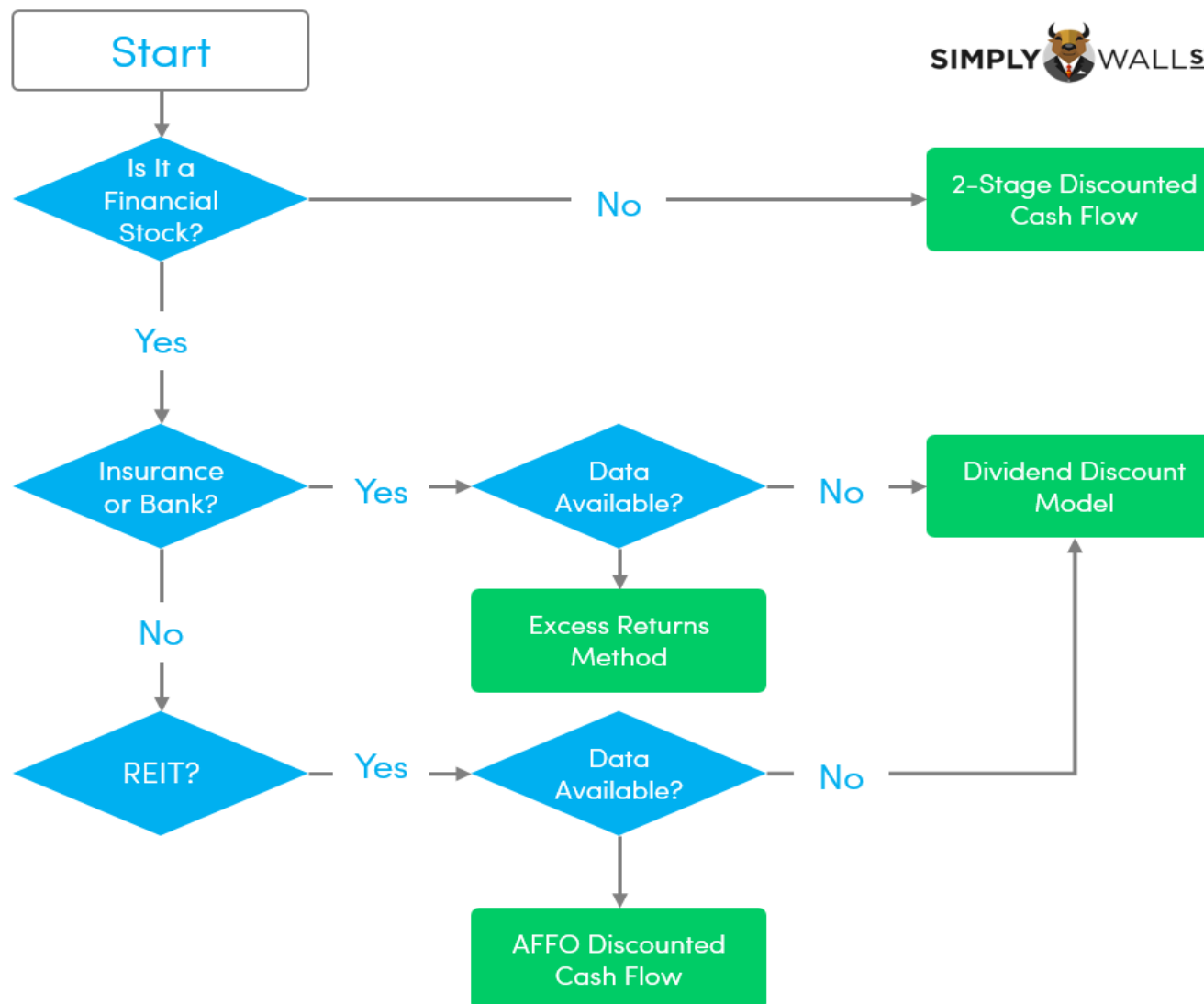


164-year continuous dividend history

Dividend yield:
3.9%¹

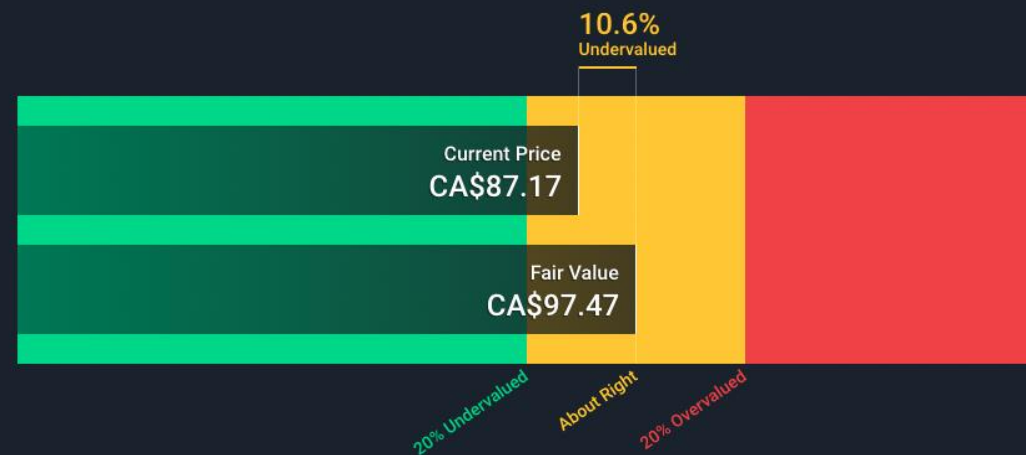
Target payout range:
40%-50%

Valuation Methods



Valuation Summary

3.1 | Share Price vs. Fair Value



- ✓ **Below Fair Value:** TD (CA\$87.17) is trading below our estimate of fair value (CA\$97.47)
- ✗ **Significantly Below Fair Value:** TD is trading below fair value, but not by a significant amount.

Data Point	Source	Value
Valuation Model		Excess Returns Model
Stable EPS	Weighted future Return on Equity estimates from 8 analysts. = Stable Book Value * Return on Equity = CA\$54.45 * 14.1%	CA\$ 7.69
Book Value of Equity per Share	Weighted future Book Value estimates from 10 analysts.	CA\$ 54.45
Discount Rate (Cost of Equity)	See below	8.6%
Perpetual Growth Rate	5-Year Average of CA Long-Term Govt Bond Rate	1.5%

	Calculation	Result
Value per share (CAD)	From above.	CA\$97.23
Current discount	Discount to share price of CA\$87.7 = (CA\$97.23 - CA\$87.7) / CA\$97.23	9.8%

TSX:TD Discount to Share Price

Key Risk Factors



Revenue and Earnings Forecasts

Earnings are forecast to decline by an average of 0.4% per year for the next 3 years



Dividend Track Record

Unstable dividend track record



Insider Selling

Significant insider selling over the past 3 months

Summary and Recommendations

- We recommend buying and holding TD Canada Trust for the next 6-12 months.
- Rate-Hikes lead to greater revenue generated by banks
- Financial Flexibility offers great potential for investors and company growth