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TD caps big banks' results with dividend hike, stronger profit

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Toronto-Dominion Bank reported profit that was 14 per cent higher for the fiscal first quarter and hiked its quarterly dividend, completing a clean sweep for Canada's six largest banks, all of which beat earnings expectations.

As of Jan. 31, TD surpassed Royal Bank of Canada as the country's largest bank by assets, benefiting from the same mix of favourable market conditions that propelled its peers to stronger results. TD boosted profit to $2.5-billion, or $1.32 per share, compared with $2.2-billion or $1.17 a year ago.

Adjusted to exclude certain items, earnings per share was $1.33. Analysts surveyed by Bloomberg expected $1.27 a share.

As expected, TD increased its quarterly dividend by 9 per cent, or 5 cents, to 60 cents a share. The bank typically boosts its payouts on an annual schedule.

Revenue rose nearly 6 per cent to $9.1-billion, also ahead of expectations.

"Our focus on organic growth, combined with favourable market conditions this quarter, led to strong results in our retail and wholesale business segments on both sides of the border," said Bharat Masrani, TD's chief executive officer, in a news release.

A rare hiccup in the bank's results came in the form of higher provisions for credit losses (PCL), which is money set aside to cover bad loans. Provisions were lower than at this time last year at $633-million, but quite a bit higher than the $548-million put aside in the fourth quarter. TD was the only bank to miss analysts' expectations for provisions this quarter.

The bank attributed higher PCLs to losses from U.S. partnerships on auto loans and credit cards. "Sometimes, because of seasonality in credit cards and auto, you can see that effect," said Riaz Ahmed, TD's chief financial officer, in an interview. But over all, "we're very comfortable with the credit profile."

The U.S. may offer TD's greatest potential for growth through the rest of 2017, but it could be a volatile time. Businesses and banks in the U.S. have been more confident as the economy expands at a faster rate, interest rates have begun to rise, and President Donald Trump's new administration has sent welcome signals about deregulation and tax reform.

Yet Canada's banks are still not sure what to expect.

"I think there is uncertainty as to what the specifics might entail, and perhaps in terms of the timing of when some of these initiatives could be put in place," Mr. Ahmed said. "However, over all, the market remains bullish on its expectations that the U.S. will accelerate growth."

TD continues to build out its U.S. footprint, particularly with investments in its capital markets arm, which seeks to expand corporate lending. But Mr. Masrani has signalled the bank is still eyeing small-scale acquisition opportunities, particularly in the U.S. southwest.

Should it find the right fit, TD has room to manoeuvre, with its common equity Tier 1 (CET1) ratio – an important measure of financial health – at a solid 10.9 per cent, up from 9.9 per cent a year ago.

“It is difficult to predict the timing because M&A doesn’t work in neat packages,” Mr. Ahmed said. “So I’d say that we’re always looking for interesting opportunities for us that would make sense from a financial point of view”

Growth was slower in the bank’s cornerstone Canadian retail division, with profit up only 4 per cent from a year earlier, as the country’s economy expands at a less than optimal pace. But the bank still added loans and recorded better revenue from wealth management, offsetting higher spending on technology and front-line staff.

Profit in the U.S. retail arm grew a little faster, up 6.5 per cent from a year earlier, as the bank added customers and earned more from fees. Its stake in online broker TD Ameritrade Holding Corp. pitched in $111-million in profit, a 2-per-cent increase from last year.

In the bank’s wholesale unit, profit was up a whopping 66 per cent to $267-million, compared with the same quarter in 2016. TD benefited from a similar increase in trading revenue as its peers reported over the last week, further boosted by higher originations in debt and equity capital markets.

“Over all, the results came in ahead of estimates, the dividend went higher and so did the CET1 ratio, all good things,” said Robert Sedran, an analyst at CIBC World Markets Inc., in a research note. “Beyond that, however, another lacklustre quarter from the Canadian [personal and commercial] banking business and a lower margin and higher loan losses in the United States give us pause.”