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TD earnings inch higher to \$2.06-billion, but CEO expecting 'tough' 2015

By DAVID BERMAN

'Strong retail earnings' on both sides of border help with first-quarter results, CEO says

Toronto-Dominion Bank said its operating environment is challenging even as the bank benefits from a substantial exposure to the U.S. economy, where a strong dollar and improving economic activity delivered upbeat results in the first quarter.

"I feel very good about our U.S. model and I think over time we'll see tremendous growth in earnings," said Colleen Johnston, TD's chief financial officer.

"But over the next couple of years, you're probably looking at more modest growth."

TD is considered the most U.S.-leaning bank among the Big Six, with \$2.2-billion in revenues flowing from its U.S. retail arm, which includes a large stake in the TD Ameritrade online brokerage.

It also has more retail branches in the United States than it does in Canada.

The exposure is paying off. U.S. operations stood out in the bank's first quarter results, at least compared with more subdued numbers from home.

"We anticipate that the market will be pleased with the performance of its U.S. platform," John Aiken, an analyst at Barclays Capital, said in a note.

In Canada, where interest rates have fallen, crude oil prices have collapsed and economic activity has grown far less certain, retail banking delivered earnings growth of 8 per cent in the first quarter over last year.

In the United States, where the economy has hit a winning streak, retail banking earnings soared 26 per cent in Canadian-dollar terms, driven by a combination of new customers and rising volumes in deposits and loans – and, of course, a stronger U.S. dollar.

For every one-cent gain in the U.S. dollar, TD's annual net income rises by \$26-million.

However, Bharat Masrani, TD's chief executive, said he expects only modest growth in its U.S. operations for the full year, due to falling margins on loans and lower securities gains.

"Over all, 2015 will continue to be a tough and uncertain environment, with increased regulatory expectations and intense competition on both sides of the border," Mr. Masrani said in a conference call.

The cautious outlook – a mantra among bank executives during the first quarter reporting season – followed modest gains in TD's earnings that failed to impress some analysts.

TD reported net income of \$2.06-billion in the first quarter, up only slightly from \$2.042-billion last year.

On a per-share basis, earnings rose to \$1.09, up from \$1.07 last year and in line with analysts' forecasts. Adjusted earnings, which account for some extraordinary items, were also in line with expectations, rising 5.7 per cent.

Earnings from wholesale banking fell 17 per cent, and expenses rose 2 per cent from last year, prompting Mr. Masrani to say that expenses will be confronted in "a thoughtful way."

Darko Mihelic, an analyst at RBC Dominion Securities, said that the results could be perceived as being weak because TD's earnings did not exceed expectations as much as some of its peers, such as Royal Bank of Canada and Canadian Imperial Bank of Commerce.

However, the shares rose 54 cents or 1 per cent, to \$54.47, on Thursday, as part of a two-day rally in Canadian bank stocks.

TD raised its dividend to 51 cents per share, up 4 cents from the previous quarter for a boost of nearly 9 per cent.

Mike Pedersen, group head of U.S. banking, said that the U.S. environment is difficult in the short-term.

However, he is bullish over the longer-term, pointing to the possibility of rising interest rates, the goal of adding new customers and the opportunity of gaining a bigger "share of wallet" as the bank offers additional services to existing customers.

"There are lots of levers that we have at our disposal," Mr. Pedersen said.