



Research Report

Financial Sector

Date: 10/19/2011

Senior Trader: Victor Kuntzevitsky
 Fund Manager: Matt Smith
 Associate: Brett Day
 Associate: Jason Suchecki
 Associate: Jon Au
 Associate: Kevin Mooibroek

Email: kuntzev@gmail.com
 Email: smith.mhj@gmail.com
 Email: daybw@mcmaster.ca
 Email: sucheckj@mcmaster.ca
 Email: auslj@mcmaster.ca
 Email: mooibrks@mcmaster.ca

info@macic.ca

Mac Investment Club

www.macic.ca

Stock Rating:

BUY

Sector Weighting:

NEUTRAL

Today's Date: \$74.50

Price Target: \$90.00

Target Price Date: 03/01/2012

COMPANY MARKET STATISTICS

Ticker: TD

Exchange: TSX

Fiscal Year End	October
52-week range (High/Low)	\$88.33/\$68.54
Shares Outstanding	899.48 M
Avg. Daily Trading Vol.	684,809
Market Capitalization	\$ 66.81 B
Annual Dividend	\$2.60
Dividend Yield	3.48%
Price/Earnings	11.88
Enterprise Value	89.67 B
Price to Book	1.57
BETA	0.91

ANNUAL EARNINGS PER SHARE (EPS)

Current Year	\$4.89
2010	\$5.00
2009	\$3.22
2008	\$4.02

HIGHLIGHTS

- Only CDN bank to increase dividends since 2008
 - Toronto Dominion Bank has not missed declaring or paying dividends on preferred or common shares since 1857.
- Toronto Dominion Bank's stock has recovered 14.9% from its recent low price of \$64.56 on 10/4/11
- Ranks as one of the top two bank selections among analysts
- Significant U.S. exposure through TD Ameritrade and TD Banknorth – America's most convenient bank
- TD Bank:
 - named the Best Bank in North America by EuroMoney for three consecutive years
 - named J.D. Power and Associates #1 bank in customer satisfaction for the fourth year in a row

OVERVIEW

The Toronto-Dominion Bank conducts a general banking business through banking branches and offices located throughout Canada, the US, and overseas. The bank and other subsidiaries offer a broad range of banking, advisory services, and discount brokerage to individuals, businesses, financial institutions, governments, and multinational corporations. The company operates in four segments: Canadian Personal and Commercial Banking, Wealth Management, U.S. Personal and Commercial Banking, and Wholesale Banking.

It operates approximately 2,733 automated banking machines; and a network of 1,127 branches located in Canada.. It serves through a network of approximately 1,273 stores located from Maine to Florida.. The company was founded in 1855 and is headquartered in Toronto, Canada.

Given weak US banks, TD has taken advantage of this opportunity by gaining presence within the country. They are a good alternative to the large national banks that are currently suffering, and the state banks. They take claim of being America's Most Convenient Bank, with the longest operating hours in the industry and online options available.

Generously Sponsored By:



PRICE CHARTS

1 Year Price Chart:



This shows that TD has had slight appreciation of their stock from one year ago. The reason it has dropped is due to the uncertainty and volatility courtesy of the EuroZone. The recent drop off corresponds with high trading volumes. TD is currently trading below it's one year average, and with the probable upside that TD will experience, we feel this justifies TD as being classified as undervalued.

Generously Sponsored By:



Comparative Chart:

TD vs Royal Bank vs TSX 1 Year Comp Return

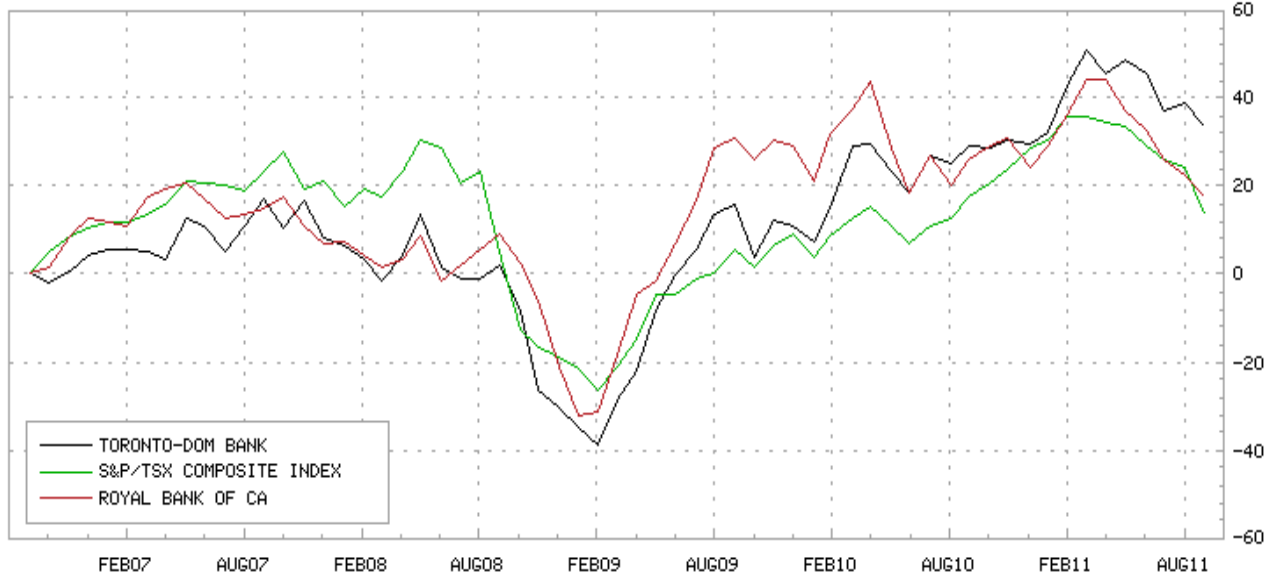
<HELP> for explanation. Equity**COMP**
 Hit 1<GO> for Options, Hit <Page> for table.

COMPARATIVE RETURNS Page 1/ 6

Range **9/29/06** - **9/30/11** Period Monthly 60 Mo. Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 TD CN Equity	CAD	12.30 %	33.67 %	20.05 %	5.97 %
2 SPTSX Index	CAD	-1.17 %	13.62 %		2.58 %
3 RY CN Equity	CAD	-2.93 %	17.72 %	4.10 %	3.31 %

(* = No dividends or coupons)



The comparative return graph shows that TD has outperformed the TSX and the largest member in their peer group, Royal Bank (RY). The Price of TD's equity has appreciated 12.3%, compared to the TSX which has dropped 1.17% and the largest bank in Canada, Royal Bank, by 2.93%. It is clear that TD has been quite defensive in the recent downturns of the markets. With strong fundamentals and growth strategies in place, it is thought that TD will continue to appreciate back to near the 52 Week High, and possibly even surpass that.

Generously Sponsored By:



NEWS AND EVENTS

The past few years have clearly been poor with regards to the stock market and interest rates. Today, we are threatened by a sovereign debt crisis in Europe. It is our opinion that Greece will eventually default, given the massive amount of debt to Greek GDP, ineffective austerity measures, and slow down of the stronger European countries. The question is when this default will take place. The Europeans recently announced that they will indeed give out the next stimulus package to Greece. Furthermore, there are talks for European banks to write off more Greek debt. Greek debt was already written off by around 21% this past July. This could be a huge hit to financials around the world.

To further add to the fire, Spain's credit rating has been downgraded in the past week. However, investors and the financial sector have gotten a bit of a boost when the Europeans announced they were determined to stabilize the Eurozone. The IMF has also become further involved in the European crisis. The upcoming EU October 23 meeting is something to watch. Analysts are calling it a make or break meeting with the possibility that a comprehensive plan to deal with the crisis could be made. However, on October 17, Germany announced that a solution was unlikely to be developed at the upcoming conference.

For the past few weeks a new trend of protest against alleged corporate greed has been hitting the downtown cores of cities. It started out as an "Occupy Wall Street" but has spread to other cities and financial cores. Though this has spread to Canadian cities, it is not clear whether this will have any effect on our financial sector. However, the Occupy movement has started to get violent in Rome and arrests have been made in New York. Despite all the problems around the world, TD has been the only major Canadian bank to increase its dividend payments since 2008. This is clearly a sign that TD is in a strong position going forward. Furthermore, the Canadian financial sector and economy have been hailed as much stronger than other developed economies.

COMPANY RISK

BETA: 0.91**WACC: 6.73%****Moody's Rating: AAA****5 Yr CDS: 1.75%****Volatility: 30.83%**

Being in the financial industry, TD is susceptible to volatility. Beta is relatively equal to the index. This means that TD's price movement is relative equal to the movement of the index. Potential risks to TD include their exposure in the US as there is a potential of devaluation in the US dollar if the Euro rallies. There is also a potential reduction in TD's share price if the EuroZone does not fix the banking crisis. The risk would then be characterized as death by association. Furthermore, there may be a backlash against foreign retail banks in the US due to a feeling of patriotism, and a natural aversion that is anything not American, as anything foreign is seen as a threat to jobs, employees, and the economy, when in fact a healthy CDN bank gives them a viable alternative to domestic US banks that are burdened by credit default swaps.

Generously Sponsored By:



PEER COMPARISON

Ticker	Short Name	Market Cap	Price:D-1	P/E	Total Return YTD	Revenue T12M	EPS T12M
JPM US Equity	JPMORGAN CHASE	1.2165E+11	31.889999	6.052321	-23.248182	1.16052E+11	4.72
RY CN Equity	ROYAL BANK OF CANADA	68071219200	47.700001	11.60488	-6.125227	32952999936	2.89
TD CN Equity	TORONTO-DOM BANK	66759319552	74.940002	11.9344	4.348787	26678000128	5.83
BAC US Equity	BANK OF AMERICA	61464498176	6.19	5.041322	-53.46645	1.12754E+11	-1.66
BNS CN Equity	BANK OF NOVA SCOTIA	56363929600	52.240002	11.49559	-5.96534	26234999808	4.55
BMO CN Equity	BANK OF MONTREAL	37187248128	58.590004	11.28185	5.532119	16810999808	5.19

TD is positioned nicely in regards to their peers. One of the differentiating things that TD has done is to greatly increase their presence in the US retail sector. We feel this is an extraordinarily good move on their behalf. They have also created a customer-user friendly environment. TD has grown their branch locations (more in the US than CDN – which is indicative of where future growth will be) established better branch hours, and has enhanced their branch services (online). It is a customer driven enterprise, where their peers are not. Finally TD has been successful in creating and launching TD Brokerage, which is arguably the best online discount brokerage available.

REVENUE AND EARNINGS

Revenues have been steadily increasing over the past year, and TD is on pace to earn the highest revenues for the last 4 years. This transfers to the Earnings Per Share, which has almost exceeded 2010's earnings in the first three quarters of 2011. It can be seen that TD's revenues have remained quite stable of the past 4 years. Despite the 2008 Financial Crisis that had catastrophic effects on many financial institutions, TD was able to remain defensive and was ultimately less impacted than the remainder of the industry.

Generously Sponsored By:



Revenue (Million CDN \$)					
	Q1	Q2	Q3	Q4	Year
2011	6,919	6,487	6,745	N/A	N/A
2010	6,515	6,168	6,199	6,527	25,409
2009	6,625	6,285	6,346	6,165	25,421
2008	6,561	6,100	6,730	6,330	25,721

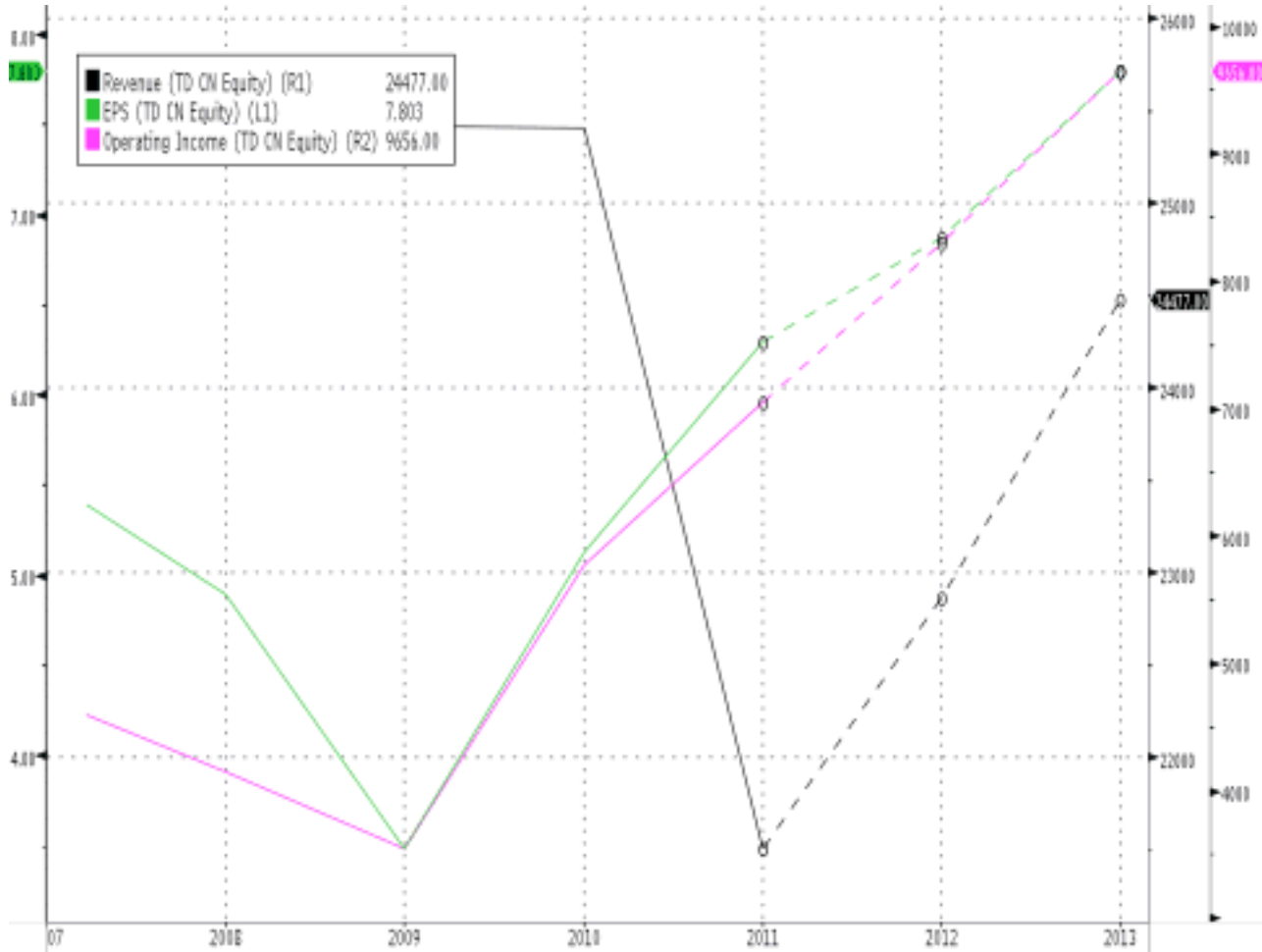
Earnings Per Share (\$)					
	Q1	Q2	Q3	Q4	Year
2011	1.69	1.54	1.66
2010	1.35	1.28	1.25	1.05	5.00
2009	0.66	0.57	0.94	0.89	3.22
2008	1.33	1.11	1.18	1.01	4.02

Generously Sponsored By:



Revenue/EPS/Operating Income

2007-2011



Generously Sponsored By:



FUNDAMENTAL RATIO ANALYSIS

Ratios are measured based on the last year period. Revenue growth has increased showing promise. The current ratio, current assets over current liabilities, is solid for a financial institution at 0.9 showing a strong ability to cover current debts. ROA is high at 95% showing that TD is utilizing its assets effectively to generate net income.

Revenue Growth 2.97%	ROE 9.66%	Current Ratio 0.9	Price to Book 1.49
Gross Margin 87.37%	ROA 0.95%	Quick Ratio 0.69	
Profit Margin 14.60%	P/E 16.85	Debt/Capital 57.38%	

CASH FLOW ANALYSIS

Cash Flow Analysis was taken over a period of one year. TD has a strong cash position of \$10.4B. TD's free cash flow per share, free cash flow per # shares outstanding, is \$0.58, indicating that TD is in a strong position to pay its debt, pay dividends, buy back stock and facilitate the growth of business. It's free cash flow yield, free cash flow over share price, is positive at 9.89%. Cash from operations is strong at 6.76B. Dividends paid out over the past year amount to \$0.94 per share and the dividend has been decreasing over the last 5 years at a rate of 6.9855%. Share price over cash flow currently is 12.81, indicating that the market believes in strong future financial health for TD.

Net Cash Position \$10.39B	Dividend \$ 0.94	Div. Growth Rate -6.9855	Price/Cash 12.81
FCF Per Share \$ 0.58	Dividend Yield 2.47%	Cash from Operation 6.76B	
FCF Yield 9.89%	Dividend Payout 40.97%		

Generously Sponsored By:



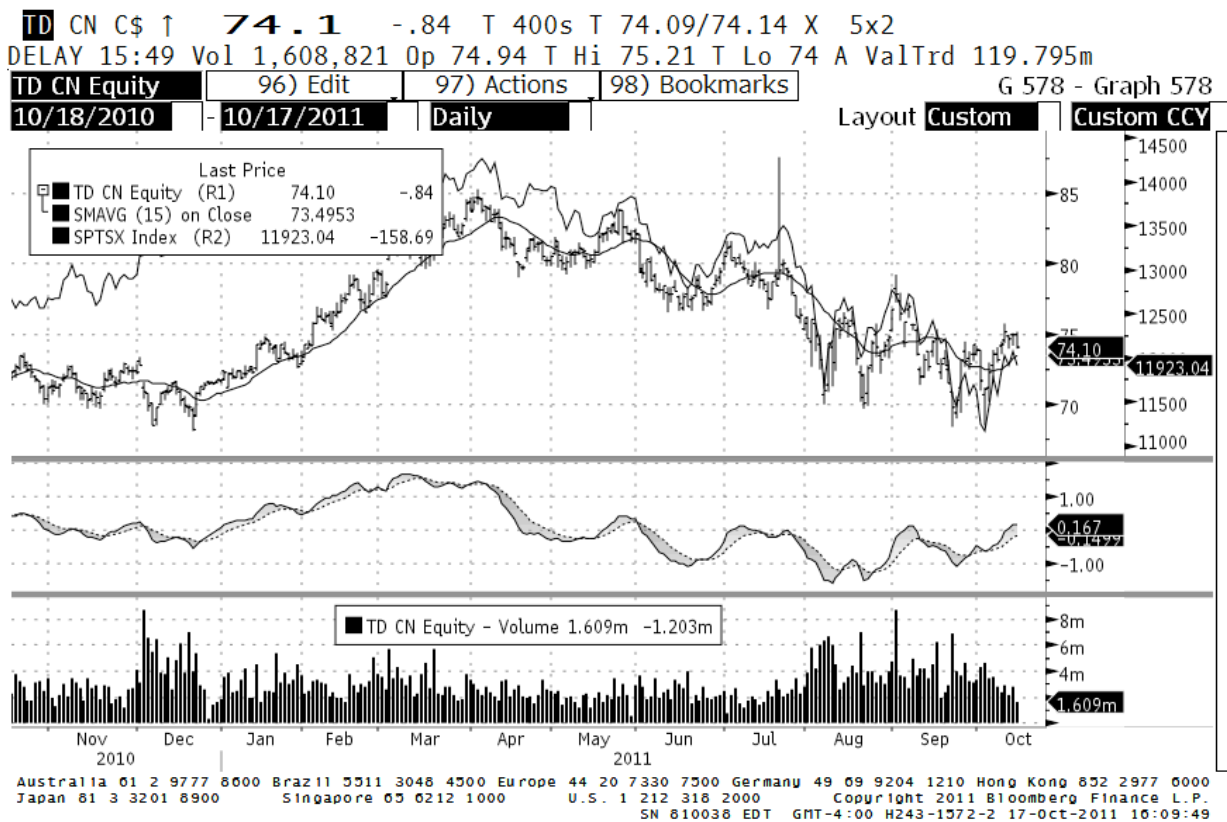
TECHNICAL ANALYSIS

When analyzing this stock from a technical perspective there were four main components that we used: A 15 day SMA, the MACD, Trading Volume, and a comparison with the S&P TSX Index.

The MACD provides a strong signal of a positive trend. The MACD line has been at or above the signal line since September 27 and it recently crossed the centre line. When the MACD crosses the centre line, it is seen as an uptrend in the stock. Buy signals are triggered when the MACD crosses over the signal line. These events are both occurring at the same time indicating that establishing a trading position will likely turn positive.

TD is currently tracking slightly higher than the S&P TSX index, indicating that the stock is outperforming the market as a whole.

The 15 day Simple Moving Average is currently beneath the trading price. This is good because the stock is tracking upwards. This allows us to employ the strategy of buying when the moving average slopes upward and the closing price crosses above the moving average.



Generously Sponsored By:



SELECTION METHODOLOGY

We believe that Toronto Dominion Bank is a very attractive investment opportunity for many reasons. Toronto Dominion Bank has a market cap of \$66.2 billion compared to an industry average of \$1.3 billion. Toronto Dominion Bank brings in more revenue than the industry average as well. They did \$17.4 billion in revenue compared to an industry average of \$14.2 billion. Toronto Dominion Bank has not missed declaring or paying dividends on preferred or common shares since 1857.

This stock is in a recovery phase. The recovery phase of a stock occurs after the market has bottomed and is showing some signs of recovery. Toronto Dominion Bank's stock has recovered 14.9% from its recent low price of \$64.56, which occurred on October 4 2011. The current price is above the 50 day moving average of \$74.09. This tells us that TD stock is ready to grow and move towards its 52-week high of \$87 again.

We believe that our buy target of \$74.50 is a good price target because the stock's 52-week price range has been from \$68 to \$87. \$74 is in the lower half of its 52-week price range and therefore we believe now is a good time to purchase and realize the capital gain.

Canadian Banks are much safer selections than American Banks because of the greater amount of government regulation in the Canadian Banking Sector compared to American Banks. Canadian Banks are in a very good financial position, in general, compared to other banks around the world and especially in the United States. The World Economic Forum (a Geneva based think-tank) ranked Canadian Banks as the soundest in the world. The United States were ranked 40th. The lower usage of leverage and more conservative lending practices in Canadian Banks have led to relatively healthy balance sheets for Canadian Banks compared to competitors in the US, Europe, and Asia. Also, even if you are worried that we are headed into a full-blown depression, Canada saw no bank failures during the Great Depression.

Toronto Dominion Bank is a top-notch Canadian Bank stock selection. It has a vast amount of growth, great management and it has a fairly conservative reputation. It frequently ranks as one of the top two bank selections among analysts. Toronto Dominion Bank and the Bank of Montreal are the only two Canadian Banks with significant U.S. exposure through TD Ameritrade and TD Banknorth, which are located in the Northeastern United States. So far, their performance has been weaker, but their capital position is still strong. This will allow TD Bank to experience some growth that the American Banking sector may experience since the 2007 – 2008 Financial Crisis.

TD Bank has been named the Best Bank in North America by leading financial markets magazine EuroMoney for three consecutive years. It has also been named J.D. Power and Associates #1 bank in customer satisfaction for the fourth year in a row.

Generously Sponsored By:

