

TD Ameritrade Holding(AMTD)

\$36.38 (As of 06/30/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

Shares of TD Ameritrade have underperformed the industry, over the past six months. Also, the company has a disappointing earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Rising costs, on account of compensation & benefit expenses, have been denting bottom line growth. Also, elimination of commissions for stocks, ETFs and options trades has hurt revenue growth. Further, stretched valuation is a concern. However, the company's focus on high net-worth clients, increasing client assets and introduction of innovative trading platforms is commendable. Further, the company's association with TD Bank provides cross-selling opportunities. Notably, the merger with Charles Schwab, announced in November 2019, is expected to create a behemoth of a discount brokerage and RIA custodian.

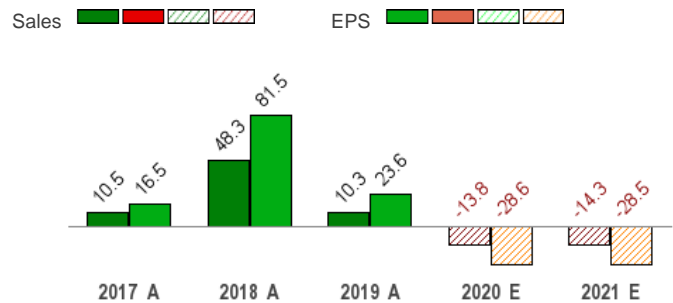
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.99 - \$27.70
20 Day Average Volume (sh)	6,094,240
Market Cap	\$19.7 B
YTD Price Change	-26.8%
Beta	1.21
Dividend / Div Yld	\$1.24 / 3.4%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 20% (51 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.3%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	07/27/2020
Earnings ESP	5.2%
P/E TTM	9.9
P/E F1	12.3
PEG F1	0.8
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,139 E	1,155 E	1,152 E	1,134 E	4,444 E
2020	1,291 A	1,480 A	1,292 E	1,128 E	5,186 E
2019	1,516 A	1,451 A	1,491 A	1,558 A	6,016 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.51 E	\$0.53 E	\$0.48 E	\$2.11 E
2020	\$0.74 A	\$0.86 A	\$0.73 E	\$0.63 E	\$2.95 E
2019	\$1.11 A	\$0.93 A	\$1.04 A	\$1.05 A	\$4.13 A

*Quarterly figures may not add up to annual.

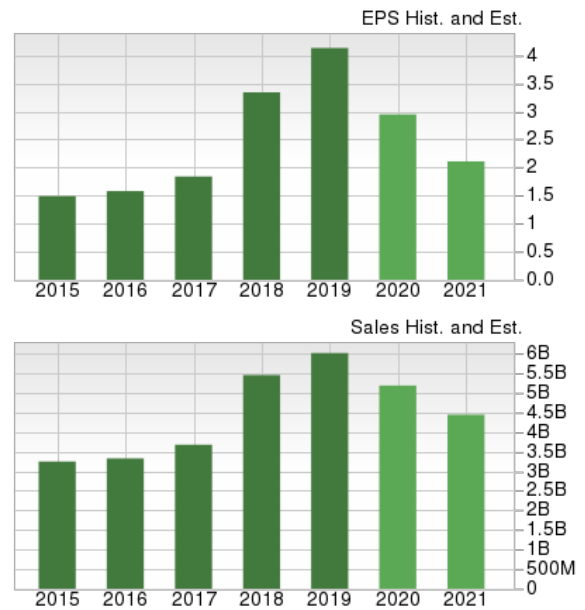
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/30/2020. The reports text is as of 07/01/2020.

Overview

Founded in 1971 in California and headquartered in Omaha, NV, TD Ameritrade Holding Corporation provides securities brokerage services and technology-based financial services to retail investors, traders, and independent registered investment advisors (RIAs) in the United States. The company provides services primarily through the Internet, a national branch network and its relationships with RIAs.

The company's prime trading and investing platform – *tdameritrade.com* – is focused on self-directed retail investors and offers a broad array of tools and services, including alerts, screeners, conditional orders and free fundamental third-party research. The company's offerings also include – *thinkorswim* designed for advanced traders aimed at fast and efficient order execution for complex trading strategies; *TD Ameritrade Mobile* helps investors and traders to trade and monitor accounts from web-enabled mobile devices; *Investools*, which provides investor education products and services for stock, option, foreign exchange, futures, mutual fund, and fixed-income investors; *Amerinvest*, an online advisory service that develops portfolios of exchange-traded funds or mutual funds to assist long-term investors pursue their financial goals; and *TD Ameritrade Corporate Services*, which provides self-directed brokerage services to employees and executives of different corporations.

Notably, Canada-based Toronto-Dominion Bank (TD Bank) holds 42% stake in TD Ameritrade. Ameritrade became TD Ameritrade when it acquired TD Waterhouse USA in 2006. It was then that TD Bank received a stake in TD Ameritrade. Further in December 2013, TD Ameritrade modified its agreement with TD Bank. The amendment extended the existing agreement's date of expiry from Jan 24, 2016 to Jan 24, 2021. It also enabled TD Ameritrade to carry out more stock buybacks. According to the amended agreement, if any share repurchases by TD Ameritrade lead to TD Bank having more than 45% interests, the latter will have to shed its stake.



Reasons To Buy:

▲ TD Ameritrade remains a leading asset gatherer with eleven consecutive years of double-digit asset growth since fiscal 2008 in net new client assets. Notably, during fiscal 2019, the company witnessed an annualized growth rate of 7% in net new client assets, within the long-term target of increasing on an annual rate of 7-10%. Notably, total net new assets exceeded \$90 billion this year from \$60 billion in 2016. Also, the company's net revenues recorded a five-year (2015-2019) compound annual growth rate (CAGR) of 16.7%. Based on the company's solid business model, focus on high net-worth clients and improving service model to boost engagement and retention, top-line growth will likely continue. Notably, in the fiscal first half of 2020, net new client assets recorded an annualized growth rate of 11%, while net revenues declined on lower fees and commissions.

TD Ameritrade is poised to see top-line growth based on a steady asset growth, surge in trading volumes and its association with TD Bank. Its efforts to digitally enhance operations are commendable.

▲ TD Ameritrade is on expansion path with the innovative products and diversification. The company's growth prospects enhanced with the acquisition of Scottrade Financial Services, Inc. This transaction resulted in significant scale to TD Ameritrade's retail business, fortified trading operations and expanded its branch network substantially. Also, TD Ameritrade invested in a regulated derivatives exchange and clearing organization, ErisX, with an aim to make digital currency products more accessible to retail clients. Also, TD Ameritrade's association with TD Bank provides an opportunity for both firms to cross-sell products. Notably, the merger with Charles Schwab is expected to create a behemoth of a discount brokerage and RIA custodian.

▲ TD Ameritrade's trading volumes have been graphing an uptrend. The company's average client trades per day have been increasing over the past few years, with the trend continuing in fiscal 2019 and fiscal first half of 2020, mainly benefiting from the market volatility. We believe, in the near term, the company will be able to improve trading volumes backed by anticipated improvement in equity markets as well as its innovative trading platforms. Additionally, the company continues to undertake investment spending in technology and advertising that are likely to enhance the overall business.

▲ Amid the coronavirus crisis and its impact on economy, the company holds debt level of \$4.9 billion and debt-capital ratio of 0.35 (compared with industry average of 0.29), as of Mar 31, 2020. Further, with time-interest-earned ratio of 19.6X and record of consistent earnings, TD Ameritrade carries less credit risk and decreases the likelihood of default or bankruptcy if economic situation worsens. Moreover, the credit rating of A2 assigned by Moody's are considered upper-medium grade and signifies the company to be at a low credit risk.

▲ Shares of TD Ameritrade underperformed the industry, year to date. Despite this unfavorable trend, the company's fiscal 2020 earnings estimates have been revised slightly upward over the past 30 days. Also, the stock seems undervalued when compared with the broader industry. Its current price-to-cash flow and price-to-earnings (F1) ratios are below the industry's averages. Therefore, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Reasons To Sell:

- ▼ TD Ameritrade is exposed to operational risks. Though total operating expenses declined in fiscal 2019, mainly due to lower employee compensation and benefits, it witnessed a CAGR of 21.6% over the four years (2015-2018). Expenses also flared up in the first half of fiscal 2020. Further, the company's expense base will likely be under pressure due to its ongoing investments in technology and advice and guidance offerings. We believe in the absence of steady cost control measures, escalating costs will lead to operational inefficiency and might hinder bottom-line expansion to some extent.
- ▼ TD Ameritrade's involvement in steady capital-deployment activities is encouraging as it declared a 3% increase in common stock dividend in October 2019. Furthermore, the company resumed share repurchase in September 2018 but terminated the same as per terms of the acquisition agreement with Charles Schwab in November 2019. Furthermore, the company's debt/equity ratio does not compare favorably with the broader industry. Thus, these capital deployment activities might not be sustainable in the quarters ahead.
- ▼ TD Ameritrade faces competition from other large and established financial institutions, with greater name recognition and ability to offer a wider range of products, which enhances their competitive position. Further, new entries into the market could create additional pricing and competitive pressures, which might adversely affect its results of operations.

Escalating costs due to investment in technology pose a concern for TD Ameritrade. Also, unsustainable capital deployment activities and stretched valuation make us wary about the future payout.

Last Earnings Report

TD Ameritrade's Q2 Earnings Miss, Expenses Up

TD Ameritrade reported a negative earnings surprise of 2.3% in second-quarter fiscal 2020 (ending Mar 31). Adjusted earnings of 86 cents per share lagged the Zacks Consensus Estimate of 88 cents. The figure also slipped 7% from the prior-year quarter's reported tally.

The company's results displayed escalating expenses during the fiscal second quarter. A fall in NIM was also recorded. However, the company witnessed an increase in average client trades per day, indicating investors' willingness to invest, leading to higher trading activity.

Including certain non-recurring items, net income for the quarter came in at \$446 million or 82 cents per share compared with the \$499 million or 89 cents reported in the prior-year quarter.

Revenues Climb, Expenses Flare Up

Net revenues for the reported quarter came in at \$1.48 billion, up 2.1% year over year. This increase chiefly resulted from higher other revenues, partly offset by lower transaction-based and asset-based revenues. The reported figure surpassed the Zacks Consensus Estimate of \$1.42 billion as well.

Total asset-based revenues for the March-end quarter amounted to \$920 million, down around 1% year over year, hurt by lower net interest revenues. This was partially muted by higher bank deposit account fees and investment product fees.

Also, commissions and transaction fees edged down 1.2% from the prior-year quarter to \$481 million. However, other revenues more than doubled to \$79 million from the prior-year quarter.

The quarter's NIM came in at 1.88%, contracting 29 basis points year over year.

Total operating expenses flared up 13.8% year over year to \$849 million. This upswing mainly resulted from rise in almost all components of expenses, partly mitigated by lower professional services.

Steady Trading Activity

Average client trades per day for the fiscal second quarter more than doubled on a year-over-year basis to 2.1 million.

As of Mar 31, 2020, net new client assets totaled \$45.4 billion, up 13% year over year on annualized basis. Total client assets came in at \$1.23 trillion, down 5.4% year over year.

Average spread-based balance was \$163.1 billion, up 11.9% year over year, and average fee-based investment balance was down 35.4% to \$176.8 billion.

Balance-Sheet Position

As of Mar 31, 2020, TD Ameritrade's cash and cash equivalents were \$3.7 billion, up from the \$2.7 billion reported as of Mar 31, 2019. Shareholders' equity was \$9.2 billion, up from the reported figure of \$8.7 billion as of Sep 30, 2019.

Outlook

For fiscal 2020, revenues are expected in the range of \$4.9-\$5.3 billion and GAAP operating expenses are projected at \$2.8-\$3 billion, including advertising expenses of \$250-\$300 million and intangible amortization of \$115-\$120 million. The NNA growth rate is expected to be 7-10%.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	3.91%
EPS Surprise	-2.27%
Quarterly EPS	0.86
Annual EPS (TTM)	3.69

Recent News

TD Ameritrade May Daily Client Trades Up 7% Sequentially - Jun 8, 2020

TD Ameritrade reported average client trades per day of 3.28 million in its activity report for May 2020. The reported figure was up 7% from the prior-month tally and more than doubled from the year-ago period.

Schwab-Ameritrade Deal Gets DOJ & Shareholder Nod - Jun 4, 2020

Charles Schwab's deal to acquire TD Ameritrade Holding for \$26 billion has received consent from the U.S. Department of Justice ("DOJ"). The all-stock deal, announced in November 2019, had raised antitrust concerns as it will make Schwab one of the prominent industry players.

Nonetheless, at that time, Schwab President and CEO Walt Bettinger had downplayed the antitrust risks. He had said, "We have numerous competitors, many of which are far larger than us today and far larger than a combined organization. They're going to continue to come right after us, as they are now in all aspects of the business."

In another development, shareholders of both Schwab and TD Ameritrade approved the transaction, with more than 99% of votes cast in favor of the deal.

Further, the proposal to issue new Schwab common shares to TD Ameritrade stockholders as consideration for the acquisition was overwhelmingly approved by the shareholders.

Steve Boyle, interim president and CEO, TD Ameritrade said, "We are pleased that our shareholders are supportive of this transformative opportunity to create the ultimate client experience for retail investors and independent registered investment advisors."

Also, votes were cast in favor of "an amendment to the fifth amended and restated certification of incorporation of Schwab," which will lead to creation of a new class of non-voting common stock that will be issued to Toronto-Dominion Bank – having nearly 43% stake in TD Ameritrade at present.

Therefore, per the Schwab charter amendment, the number of authorized shares of Schwab will increase by 300 million, and it will be authorized to issue 300 million shares of non-voting common stock, each with a par value of \$0.01 per share.

By clearing these hurdles, the deal is a step closer to completion though it still requires other regulatory approvals. The deal is expected to close in the second half of 2020 and integration will likely take another 18-36 months.

TD Ameritrade April Daily Client Trades Up 5.4% Sequentially - May 11, 2020

TD Ameritrade reported average client trades per day of 3.05 million in its activity report for April 2020. The reported figure was up 5.4% from the prior-month tally and more than doubled from the year-ago period.

Dividend Update

On Apr 22, TD Ameritrade announced a quarterly cash dividend of 31 cents per share. The dividend was paid on May 20, to shareholders of record as of May 6, 2020.

Valuation

TD Ameritrade's shares are down 26.8% in the year-to-date period and 27.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 16.5% and 22.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 6.1% and 17.4%, respectively.

The S&P 500 Index is down 5.2% in the year-to-date period but up 3.3% in the past year.

The stock is currently trading at 15.69X forward 12 months earnings, which compares to 12.38X for the Zacks sub-industry, 15.9X for the Zacks sector and 21.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 29.38X and as low as 8.18X, with a 5-year median of 17.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 16.47X forward earnings.

The table below shows summary valuation data for AMTD

Valuation Multiples - AMTD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.69	12.38	15.9	21.87
	5-Year High	29.38	15.31	16.18	22.14
	5-Year Low	8.18	6.04	11.57	15.25
	5-Year Median	17.26	11.57	14.06	17.52
P/TB TTM	Current	5.22	2.13	3.19	12.03
	5-Year High	19.76	3.33	4	12.78
	5-Year Low	4.65	1.4	2	5.96
	5-Year Median	9.82	2.38	3.48	9.41
P/S F12M	Current	4.25	3.45	6	3.42
	5-Year High	7.26	4.53	6.66	3.44
	5-Year Low	2.99	2.74	4.96	2.53

	5-Year Low	2.00	2.17	7.00	2.00
	5-Year Median	5.19	3.54	6.06	3.02

As of 06/30/2020

Industry Analysis Zacks Industry Rank: Top 20% (51 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Raymond James Financial, Inc. (RJF)	Outperform	2
Virtu Financial, Inc. (VIRT)	Outperform	1
Evercore Inc (EVR)	Neutral	2
LPL Financial Holdings Inc. (LPLA)	Neutral	2
MoelisCompany (MC)	Neutral	4
Nomura Holdings Inc ADR (NMR)	Neutral	2
The Charles Schwab Corporation (SCHW)	Neutral	3
ETRADE Financial Corporation (ETFC)	Underperform	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	AMTD	X Industry	S&P 500	EVR	LPLA	RJF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	2	2
VGM Score	A	-	-	F	A	B
Market Cap	19.68 B	552.39 M	21.75 B	2.39 B	6.18 B	9.43 B
# of Analysts	7	2	14	2	4	1
Dividend Yield	3.41%	0.00%	1.93%	3.94%	1.28%	2.15%
Value Score	A	-	-	C	A	B
Cash/Price	1.26	0.76	0.07	0.27	0.30	1.66
EV/EBITDA	0.42	2.35	12.71	4.77	6.92	-1.30
PEG Ratio	0.74	1.63	2.86	NA	NA	NA
Price/Book (P/B)	2.15	1.66	2.97	2.30	6.17	1.40
Price/Cash Flow (P/CF)	7.75	8.20	11.71	5.64	8.20	8.17
P/E (F1)	12.13	14.18	21.23	24.60	12.83	14.96
Price/Sales (P/S)	3.38	1.23	2.30	1.18	1.08	1.14
Earnings Yield	8.11%	6.88%	4.48%	4.06%	7.79%	6.68%
Debt/Equity	0.54	0.36	0.76	0.60	2.69	0.49
Cash Flow (\$/share)	4.69	2.30	7.01	10.44	9.56	8.43
Growth Score	A	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	30.56%	15.61%	10.93%	28.77%	36.96%	21.84%
Proj. EPS Growth (F1/F0)	-28.64%	-20.12%	-9.77%	-68.90%	-14.87%	-37.84%
Curr. Cash Flow Growth	17.86%	2.06%	5.51%	-15.37%	21.74%	13.40%
Hist. Cash Flow Growth (3-5 yrs)	21.50%	13.28%	8.62%	23.38%	18.26%	17.54%
Current Ratio	1.15	1.31	1.30	3.14	1.31	1.06
Debt/Capital	35.07%	28.51%	44.41%	37.58%	72.89%	32.97%
Net Margin	33.18%	9.77%	10.62%	12.96%	9.80%	11.64%
Return on Equity	23.05%	14.28%	15.75%	33.05%	59.55%	14.55%
Sales/Assets	0.13	0.29	0.55	0.90	0.99	0.20
Proj. Sales Growth (F1/F0)	-13.80%	-1.08%	-2.43%	-29.43%	-0.54%	-1.63%
Momentum Score	A	-	-	D	A	B
Daily Price Chg	2.80%	0.85%	1.41%	2.79%	2.52%	0.63%
1 Week Price Chg	-13.41%	-2.78%	-3.90%	-3.76%	-9.97%	-9.86%
4 Week Price Chg	-6.26%	0.00%	-1.62%	1.59%	3.92%	-5.71%
12 Week Price Chg	0.89%	13.94%	15.67%	11.25%	49.39%	7.70%
52 Week Price Chg	-27.21%	-16.08%	-8.07%	-33.39%	-3.77%	-18.60%
20 Day Average Volume	6,094,240	110,902	2,699,706	571,765	1,067,007	1,168,703
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.07%	0.00%
(F1) EPS Est 4 week change	0.59%	0.07%	0.00%	7.64%	4.71%	1.10%
(F1) EPS Est 12 week change	2.63%	-16.52%	-10.28%	-73.09%	4.62%	-39.39%
(Q1) EPS Est Mthly Chg	2.00%	0.33%	0.00%	38.04%	2.76%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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